

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**COLOMBIA**

**PROGRAM TO SUPPORT PRIVATE PARTICIPATION AND  
CONCESSIONS IN INFRASTRUCTURE – STAGE TWO (PPCI-2)**

**(CO-0263)**

**LOAN PROPOSAL**

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## CONTENTS

MAP

EXECUTIVE SUMMARY

I.	FRAME OF REFERENCE.....	1
A.	Socioeconomic framework.....	1
B.	The infrastructure sectors.....	2
1.	Private participation .....	2
2.	Transportation .....	3
3.	Energy.....	7
4.	Communications .....	8
5.	Water and sanitation.....	9
C.	Country strategy for the promotion of private participation in infrastructure.....	10
D.	The strategy and experience of the Bank and other donors .....	13
1.	The Bank's country strategy.....	13
2.	The Bank's sector strategy.....	13
3.	The experience of the Bank and other donors .....	13
E.	Program strategy .....	15
II.	THE PROGRAM .....	18
A.	Objectives .....	18
B.	Description .....	18
1.	Institutional development and strengthening for policy, regulatory, concessioning and oversight agencies.....	18
2.	Preparation and promotion of specific private participation projects.....	19
C.	Cost and financing .....	21
D.	Bank financing terms .....	22
III.	PROGRAM EXECUTION.....	24
A.	Borrower, guarantor, and executing agency .....	24
B.	Execution mechanism .....	24
1.	Steering committee .....	24
2.	Program coordination unit .....	25
3.	Management office of the program for private participation in infrastructure projects.....	25
4.	Beneficiary agencies .....	26
5.	Program management firm .....	26
C.	Priority-setting criteria .....	26
D.	Execution.....	27
E.	Consulting contracts and procurements .....	30
F.	Disbursements and revolving fund.....	31

G.	Execution period and disbursement schedule.....	31
H.	Retroactive financing.....	31
I.	External audits.....	31
J.	Monitoring and evaluation.....	32
K.	Information activities .....	32
IV.	VIABILITY AND RISKS.....	33
A.	Institutional viability .....	33
B.	Socioeconomic feasibility.....	34
C.	Financial feasibility .....	34
D.	Environmental and social impact .....	35
E.	Benefits.....	37
F.	Risks .....	38

## **ANNEXES**

Annex I	Logical framework
Annex II	Procurement plan

## **APPENDICES**

Proposed resolution

## **BASIC SOCIOECONOMIC DATA**

For basic socioeconomic data on Colombia, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

## INFORMATION AVAILABLE IN THE RE3/FI3 TECHNICAL FILES

### Preparation:

1. Informe Final de Evaluación del Programa de Apoyo al Proceso de Participación Privada y Concesión en Infraestructura (PPCI-1). [Final evaluation report on the program to support private participation and concessions in infrastructure, stage one (PPCI 1)]. Click [here](#).
2. Colombia: Plan Nacional de Desarrollo 2002-2006: Hacia un Estado Comunitario. [Colombia. National Development Plan 2002-2006: Toward a Community State]. Click [here](#).
3. Database of the project on private participation in infrastructure. Task Force on Private Participation in Infrastructure. World Bank 2003. Click [here](#).
4. CONPES document 3006 (May 1998): “La participación privada en agua potable: seguimiento” [Private participation in potable water: Follow-up]. Click [here](#).
5. CONPES document 2928 (June 1997): “Participación privada en infraestructura: seguimiento” [Private participation in infrastructure: Follow-up]. Click [here](#).
6. CONPES document 2852 (June 1996): “Participación privada en proyectos de Infraestructura: seguimiento” [Private participation in infrastructure projects: Follow-up]. Click [here](#).
7. CONPES document 3045 (August 1999): “Programa de concesiones viales: tercera generación de concesiones” [Highway concession program. Third-generation concessions]. Click [here](#).
8. CONPES document 3120 (June 2001): “Estrategia para el mejoramiento de la gestión ambiental en el sector eléctrico” [Strategy to improve environmental management in the electric power sector]. Click [here](#).
9. CONPES document 3108 (April 2001): “Programa de energización para zonas no interconectadas” [Electrification program for noninterconnected zones]. Click [here](#).
10. CONPES document 3107 (April 2001): “Política de manejo de riesgo contractual del Estado para procesos de participación privada en infraestructura (PPI)” [Policy for managing the government’s contractual risks in private participation in infrastructure]. Click [here](#).
11. CONPES document 3133 (September 2001): “Modificaciones a la política de manejo de riesgo contractual del Estado para procesos de PPI” [Changes in the policy for managing the government’s contractual risks in private participation in infrastructure]. Click [here](#).
12. CONPES document 3167 (May 2002): “Política para mejorar el servicio de transporte público urbano de pasajeros” [Policy to improve urban public passenger transportation services]. Click [here](#).

13. “Política de riesgo y fondo de contingencias para las concesiones en Colombia” [Risk policy and contingency fund for concessions in Colombia], DNP.
14. Reyes, José Daniel. “Impacto económico de las garantías de la Nación en proyectos de infraestructura” [Economic impact of government guarantees in infrastructure projects], in Archivos de Economía. Dirección de Estudios Económicos, DNP. April 2002.
15. DNP (2003). “Participación privada 1990-2003” [Private participation 1990-2003].

**Execution:**

1. Methodological definition of performance indicators for the program to support private participation and concessions in infrastructure, stage two (PPCI-2).
2. Operations manual.
3. Tentative work plan for project year one.

## ABBREVIATIONS

ANH	Agencia Nacional de Hidrocarburos [National oil and gas agency]
AEROCIVIL	Unidad Administrativa Especial de la Aeronáutica Civil [Civil Aviation Special Administration Unit]
CAR	Corporaciones Autónomas Regionales [Autonomous Regional Corporations]
COMPARTEL	Programa de Telecomunicaciones Sociales [Social telecommunications program]
CONPES	Consejo Nacional de Política Económica y Social [National Economic and Social Policy Council]
CRA	Comisión de Regulación de Agua Potable y Saneamiento [Water and Sanitation Regulatory Comisión]
CREG	Comisión de Regulación de Energía y Gas [Power and Gas Regulatory Comisión]
CRTR	Comisión de Regulación del Transporte [Transportation Regulatory Comisión]
DNP	Departamento Nacional de Planeación [National Planning Department]
ECOPETROL	Empresa Colombiana de Petróleos [Colombian state petroleum corporation]
EEB	Empresa de Energía de Bogotá [Bogota Power Company]
EMCALI	Empresas Municipales de Cali [Cali Municipal Utilities]
EPM	Empresas Públicas de Medellín [Medellín Municipal Utilities]
GEINF	Gerencia del Programa de Participación Privada en Proyectos de Infraestructura [Management office of the program for private participation in infrastructure]
IIRSA	Iniciativa para la Integración de la Infraestructura Regional en América del Sur [Initiative for Regional Infrastructure Integration in South America]
IMTS	Integrated mass transportation systems
INCO	Instituto Nacional de Concesiones [National Concessions Administration]
INVIAS	Instituto Nacional de Vías [National Highways Administration]
ISA	Interconexión Eléctrica S.A. [National transmission company]
MAVDT	Ministry of the Environment, Housing and Land Development
MHCP	Ministry of Finance and Public Credit
MME	Ministry of Mines and Energy
MT	Ministry of Transportation
PCU	Program coordination unit
PME	Programa de Modernización Empresarial [Business modernization program]
PPCI	Program to support private participation and concessions in infrastructure
SC	Steering committee
SSPD	Superintendencia de Servicios Públicos Domiciliarios [Office of the Superintendent of Residential Utilities]

STP	Superintendencia de Transporte y Puertos [Office of the Superintendent of Transportation and Ports]
TM	TransMilenio [Bogota's mass transit system]
UPME	Unidad de Planeación Minero-Energética [Mines and Energy Planning Unit]
ZNI	Zonas no interconectadas [noninterconnected zones]





# COLOMBIA

## IDB LOANS

APPROVED AS OF SEPTEMBER 30, 2004

	US\$Thousand	Percent
<b>TOTAL APPROVED</b>	<b>11,586,775</b>	
DISBURSED	10,331,820	89.16 %
UNDISBURSED BALANCE	1,254,955	10.83 %
CANCELATIONS	1,052,501	9.08 %
PRINCIPAL COLLECTED	5,562,438	48.00 %
<b>APPROVED BY FUND</b>		
ORDINARY CAPITAL	10,762,662	92.88 %
FUND FOR SPECIAL OPERATIONS	760,990	6.56 %
OTHER FUNDS	63,123	0.54 %
<b>OUTSTANDING DEBT BALANCE</b>	<b>4,769,382</b>	
ORDINARY CAPITAL	4,599,975	96.44 %
FUND FOR SPECIAL OPERATIONS	169,115	3.54 %
OTHER FUNDS	292	0.00 %
<b>APPROVED BY SECTOR</b>		
AGRICULTURE AND FISHERY	562,169	4.85 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	533,554	4.60 %
ENERGY	3,047,002	26.29 %
TRANSPORTATION AND COMMUNICATIONS	741,612	6.40 %
EDUCATION	87,416	0.75 %
HEALTH AND SANITATION	1,011,350	8.72 %
ENVIRONMENT	189,272	1.63 %
URBAN DEVELOPMENT	570,365	4.92 %
SOCIAL INVESTMENT AND MICROENTERPRISE	2,296,035	19.81 %
REFORM AND PUBLIC SECTOR MODERNIZATION	2,513,406	21.69 %
EXPORT FINANCING	0	0.00 %
PREINVESTMENT AND OTHER	0	0.00 %

\* Net of cancellations with monetary adjustments and export financing loan collections.



**Inter-American Development Bank**  
Regional Operations Support Office  
Operational Information Unit

## Colombia

### Tentative Lending Program

#### 2004

Project Number	Project Name	IDB US\$ Millions	Status
CO0139	Reorganization Redesign & Modernization of Health Services Networks	72.0	APPROVED
CO0262	National Environmental System Support Program	20.0	APPROVED
CO0266	Public Service Reform Program	10.3	APPROVED
CO0270	Public Utilities Reform Program	600.0	APPROVED
CO0263	Support of Private Participation and Concessions in Infrastructure-Second Stage	5.0	
CO1003	National Rural Housing Program	30.0	
<b>Total - A : 6 Projects</b>		<b>737.3</b>	
<b>TOTAL 2004 : 6 Projects</b>		<b>737.3</b>	

#### 2005

Project Number	Project Name	IDB US\$ Millions	Status
CO1001	Cali Integrated Transit System	200.0	
CO1008	Support for National Census of Population and Housing 2005	50.0	
CO1002	Support to the Extended Vaccinations Program - PAI	70.0	
CO1005	Porc III Hydroelectric Power Plant	200.0	
CO1007	Competitiveness Enhancement Program in Colombia	400.0	
CO1004	Rehabilitation and Maintenance Highways (INVIAS)	50.0	
CO1006	Sanitation Manizales and Villamaria	13.5	
CO0267	Environmental Sanitation of Bogota - Phase I	50.0	
<b>Total - A : 8 Projects</b>		<b>1,033.5</b>	
<b>TOTAL - 2005 : 8 Projects</b>		<b>1,033.5</b>	

**Total Private Sector 2004 - 2005**      **0.0**  
**Total Regular Program 2004 - 2005**      **1,770.8**

\* Private Sector Project



# COLOMBIA

## STATUS OF LOANS IN EXECUTION AS OF SEPTEMBER 30, 2004

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF LOANS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<b><u>REGULAR PROGRAM</u></b>				
Before 1998	6	152,356	117,452	77.09 %
1998 - 1999	5	98,166	52,493	53.47 %
2000 - 2001	3	302,610	171,710	56.74 %
2002 - 2003	6	611,569	272,858	44.62 %
2004	4	702,346	0	0.00 %
<b>TOTAL</b>	<b>24</b>	<b>\$1,867,047</b>	<b>\$614,513</b>	<b>32.91 %</b>

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\* Net of cancellations. Excludes export financing loans.

## PROGRAM TO SUPPORT PRIVATE SECTOR PARTICIPATION AND CONCESSIONS IN INFRASTRUCTURE – STAGE TWO (PPCI-2)

(CO-0263)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Colombia	
<b>Executing agency:</b>	Departamento Nacional de Planeación [National Planning Department] (DNP)	
<b>Amount and source:</b>	IDB (OC):	US\$5 million
	Local:	US\$2.15 million
	Total:	US\$7.15 million
<b>Financial terms and conditions:</b>	<p>The interest rate, credit fee and inspection and supervision fee mentioned in this document are set on the basis of document FN-568-3 Rev., and may be modified by the Board of Executive Directors, taking account of performance to date and the recommendation of the Finance Department. In no event will the credit fee exceed 0.75 percent, or the inspection and supervision fee 1 percent.<sup>1</sup></p>	
	Amortization period:	20 years
	Grace period:	4 years
	Disbursement period: <sup>2</sup>	4 years
	Interest rate:	Adjustable option
	Inspection and supervision:	0.00%
	Credit fee:	0.25%
	Currency:	U.S. dollars, Single Currency Facility

<sup>1</sup> In no event will the inspection and supervision fee exceed, in a given six-month period, the amount that would result from dividing 1 percent of the loan amount by the number of six-month periods in the original disbursement period.

<sup>2</sup> Under Bank policies, the loan may not be fully disbursed in less than three years, running from the effective date of the loan contract.

**Objectives:** The general objective of the program is to facilitate and encourage private participation in infrastructure with a view to promoting efficient delivery of quality services. The specific objectives are to: (i) consolidate and sustainably strengthen the technical and institutional capacity of policy, regulatory and oversight agencies in the infrastructure sectors; and (ii) support the development of new processes for private participation in infrastructure.

**Description:** The proposed program is stage two of the program in support of privatization and concessions in infrastructure, which contributed to the design of specific projects for private participation and the development of regulations and policies for infrastructure sectors and was financed by the IDB and World Bank (see paragraph 1.46). Stage two is a flexible and timely instrument for financing high-impact activities in line with sector strategies for private participation. The program will supply the necessary technical and financial support to lend continuity to the process of modernizing infrastructure in Colombia. It will include a multidisciplinary strategy and a sturdy, sustainable design based on lessons learned in stage one. Given the modest sums involved, the program will support only a small portion of the planned activities.

The program has two components:

1. **Institutional development and strengthening of policy, regulatory, concessioning and oversight agencies** (US\$1.7 million). This component will finance studies to identify ways of strengthening the institutional mechanism for regulation and control, ensuring that agencies are politically independent and operate autonomously with due accountability and public debate of regulatory proposals and decisions, with the goal of improving the investment climate.
2. **Preparation and promotion of specific projects for private sector participation** (US\$4.9 million). This component will finance advisory services needed to design specific private participation projects for upgrading, construction, operation and maintenance of infrastructure services, especially in the transportation, power, communications and water and sanitation sectors.

**The project's role in the Bank's country and sector strategy:**

The Bank's country strategy identifies three overarching objectives as the frame of reference for Bank activity in the period 2003-2006: (i) lay the foundation for economic revival and jumpstarting growth; (ii) foster social progress and make sure society's most vulnerable are protected; and (iii) strengthen governance and further reforms of the

State. The proposed program will contribute directly to objectives (i) and (iii) (see paragraph 1.45).

With regard to private participation in infrastructure, the Bank's activity is in line with the guidelines established in its strategies for competitiveness, infrastructure development, the energy sector, and comprehensive management of water resources. The program's focus is consistent with the guidelines of these policy documents, and all the actions envisaged are covered by the competitiveness strategy (see paragraph 1.45). The proposed program echoes the underlying reasoning behind these strategies, which is the need to consolidate the institutional and regulatory reforms begun in the last decade with a view to promoting greater private sector participation and assuring the efficient and universal provision of quality infrastructure services.

**Coordination  
with other  
official  
development  
institutions:**

Program stage one was cofinanced by the IDB and the World Bank. At the Government of Colombia's request, stage two (PPCI-2) will be financed exclusively by the IDB. The Government of Colombia and the World Bank are exploring development of an urban public transportation program, and the CAF's plans include a transportation sector program. The proposed program will complement the World Bank and CAF activities. While this program does not involve direct coordination with other official development institutions, its expected outcomes will contribute indirectly to the development of their strategies and current programs in the country (see paragraph 1.48).

**Environmental  
and social  
review:**

No direct environmental or social impact is anticipated, given the nature of the activities to be financed under the program. The Colombian government has made significant headway in establishing a regulatory framework for the prevention and management of environmental and social impact in infrastructure projects. However, in line with the recommendations made in the stage one evaluation, the program's environmental and social strategy will entail: (i) inclusion of activities to link the treatment of environmental and social factors more closely to infrastructure policy and regulation; and (ii) refinement of the procedures for incorporating environmental and social components into the design of private participation processes.

**Benefits:**

The proposed program will bring significant and diverse benefits through an increase in the coverage and quality of infrastructure services; efficiency gains in the management of scarce public resources; improvement in the country's competitive position; promotion of the development of a local capital market; and its contribution to leveraging funds for the government in a difficult fiscal context.

Private sector participation is a good way to leverage the investments that need to be made in infrastructure, freeing up scarce public resources for investments in other sectors in a context of fiscal restraint. As a result of the private sector participation processes prepared and promoted with funds from stage one, private investment of US\$2.792 billion and public investment of US\$2.623 billion was generated.

Customers will also benefit from the improvements in infrastructure services associated with the entry of qualified private operators. Such benefits will take the form of new technologies being introduced, higher standards for customer service and better infrastructure maintenance.

Another benefit derives from the major impact that development of the transportation corridors to be financed under the concession system will have on the competitiveness and development of the exporting industry.

Lastly, the introduction of mechanisms to diversify capital ownership for the sale of public corporations can contribute significantly to an increase in public stock offerings, thereby promoting development of the local capital market.

**Risks:**

The program carries four risks: (i) the lack of an ongoing commitment by the beneficiary agencies to implement actions to promote private participation; (ii) limited fiscal leeway that could pose problems with the timeliness and sufficiency of counterpart funds; (iii) eroding investor perceptions of the business climate and less private-sector interest in investing in infrastructure in the region; and (iv) a lack of adequate institutional coordination (see paragraphs 4.25 to 4.29).

To mitigate the first risk, one of the priority-setting criteria will be to give preference to activities in which the beneficiaries put up part of the local contribution. Agreements will be entered into between the executing agency and beneficiary agencies, in which they commit to oversee activities and incorporate the resulting know-how. The inclusion of mechanisms for the contribution of own resources by the beneficiary agencies will have the added benefit of reducing the need for local contributions by the central government to some extent, thereby helping to mitigate the second risk.

To help maintain a favorable investment climate, the program will finance strengthening of the respective regulatory and oversight frameworks and promote the timely disclosure of technical and financial information on private participation projects. A website will

be launched to promote the program activities and report on performance.

Last, the program design minimizes potential problems related to lack of coordination on execution by: (i) concentrating execution in a single entity; (ii) establishing a high-level steering committee to provide strategic direction for the program; and (iii) basing execution on annual work plans.

**Special  
contractual  
clauses:**

Prior to the first disbursement of the program, the borrower must present evidence that:

- a. The program management agency has been hired on terms and conditions agreed upon with the Bank (see paragraphs 3.9 to 3.11).
- b. The program's operations manual has entered into effect under terms agreed upon in advance with the Bank (see paragraph 3.21).

**Poverty-  
targeting and  
social sector  
classification:**

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704), nor does it qualify as a poverty-targeted investment (PTI).

**Exceptions to  
Bank policy:**

None.

**Procurement:**

The program will finance mainly consulting services, which will be contracted in accordance with Bank policies and procedures.

The program does not call for the procurement of goods. However, should it be required, international competitive bidding will be used when their cost exceeds US\$350,000 equivalent.



## **I. FRAME OF REFERENCE**

### **A. Socioeconomic framework**

- 1.1 Colombia has been implementing major reforms over the last decade to liberalize its external sector and make headway in reducing the public sector's role in the economy. The latter has been done through sweeping sector and institutional reforms in the structure and function of the public administration and models for the delivery of infrastructure services. Progress was partly interrupted as a result of the serious economic crisis that affected the country during the first half of 1999, and whose negative impact is still being felt today.
- 1.2 When it took office in August 2002, Alvaro Uribe's administration was faced with the economic and social effects of stagnation in economic growth and the large fiscal imbalance caused by the crisis, both in the context of escalation in the armed conflict. In response to these challenges, the new administration came up with a plan of structural reforms to control the fiscal deficit and spur the economy as part of a parallel strategy to reduce internal conflict. These reforms are included in the National Development Plan 2002-2006: Toward a Community State.
- 1.3 The government's initiatives have begun to have a favorable impact on the Colombian economy, which is showing signs of resumed productive activity. Although GDP only grew at a rate of 1.6 percent in 2002 —slightly higher than in 2001—the economy grew by 3.64 percent in real terms in 2003. Expectations are good for this and coming years. Indicators such as an increase in the consumer confidence index, improvement in the indices of security and public order, the substantial increase in sales, and the reduction in company inventories bear out the predictions for better economic performance. The Colombian economy is expected to grow by 4.1 percent in 2004, while estimates of increased economic activity for 2005 are on the order of 4.5 percent.
- 1.4 Colombia has been making major fiscal efforts that have led to a consolidated public sector deficit reduction from 3.4 percent of GDP in 2000 to 2.5 percent in 2004. This strong performance was made possible by government spending cutbacks and a tax reform that offset, in the short term, the impact of not passing the fiscal measures called for in the 2003 referendum. The Ministry of Finance and Public Credit (MHCP) has identified about US\$200 million in resources from privatizations as a source of financing for the national government in 2004. Nor are any difficulties foreseen in meeting the criteria of the IMF standby arrangement, which expires in December 2004. The government has signaled its intention to negotiate a new arrangement.

## **B. The infrastructure sectors**

### **1. Private participation**

- 1.5 As part of its economic modernization policies, in recent years the government has been developing a program to promote private-sector participation through the sale of assets and in financing, construction and/or operation, rehabilitation and maintenance in the transportation, urban transport, energy, communications, water and basic sanitation sectors.
- 1.6 The ambitious privatization plan carried out during the 1990s consisted of privatizing and conceding a large portion of infrastructure services<sup>1</sup> and made it possible to reduce considerably their dependency on shrinking public funds. This process laid the groundwork for continued expansion of investment in infrastructure. From 1995 to the first half of 2002, there has been a significant flow of private investment in infrastructure in the amount of US\$23.632 billion.
- 1.7 The government has been relatively successful in attracting private investment in the delivery of infrastructure services. Today, the private sector plays a major role in most the sectors. Colombia ranked fifth in private investment in infrastructure in Latin America and the Caribbean over the period 1990-2002. Private participation in the country has mainly taken place through privatizations of public companies and through concessions, as in most countries of the region.<sup>2</sup>
- 1.8 In the early 1990s, when Colombia began moving toward a more open economy, it lacked good quality supporting infrastructure. Its port terminals were the most expensive and least efficient in the region; the highway system was very deficient in coverage and specifications; and the electric power system and the quality of service were very poor. Also, telephone coverage and quality was insufficient to meet the requirements of economic modernization.
- 1.9 Private participation has improved the efficiency, coverage and quality of infrastructure.<sup>3</sup> But despite the progress made, the current level of coverage of infrastructure services provided by the private sector is insufficient to support higher levels of growth, facilitate access by the poor and close the investment gap created by fiscal constraints. Consequently, the government's current challenge is to remove the institutional and regulatory barriers that continue to adversely impact

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<sup>1</sup> For a summary of the projects carried out under the plan, see "Participación Privada 1990-2003" [Private Participation 1990-2003], DNP, 2003, which is available for consultation in the RE3/FI3 files.

<sup>2</sup> "Private Participation in Infrastructure: Trends in Developing Countries in 1990-2001," World Bank, 2003.

<sup>3</sup> For a more detailed description of developments in the indicators for private investment and for coverage and quality in the transportation, water, energy and water and basic sanitation sectors in the period 1994-2001 see the performance indicators for stage one of the program: (1) [Summary of indicators](#) and (2) [Definition](#).

the investment climate, inhibiting greater private participation in the development and modernization of infrastructure.

- 1.10 In the context of its strategic objective of spurring sustainable economic growth, the National Development Plan 2002-2006 recognizes the importance of continuing to promote private participation in infrastructure and commits the government to concluding certain specific projects and meeting specific targets during that period within a framework of environmental sustainability.

## **2. Transportation**

### **a. Institutional, regulatory and decentralization framework**

- 1.11 The transportation sector has undergone several institutional reforms recently, beginning with the Transportation Act (Law 105 of 1993) and consolidated in Decree 101 of 2000. The main features of the institutional reforms are: (i) the separation of planning, execution, regulatory and oversight activities; (ii) the consolidation of a Ministry of Transportation responsible for formulating policies and rules for executing agencies; (iii) the design of a national highway system which is the responsibility of the National Highway Administration (INVIAS); (iv) the transfer of secondary and tertiary systems to the departments and municipalities, respectively; (v) the creation of the Transportation Regulatory Commission (CRTR) as a special agency of the Ministry of Transportation with responsibility for regulating public transportation services, setting quality standards and indicators and establishing the technical, operational and financial framework within which concessions in the different modes of transport will be developed; and (vi) the establishment of an Office of the Superintendent of Transportation and Ports (STP), to oversee the transit and transportation system. The National Concessions Administration (INCO) was recently set up under Decree 1800 of June 2003, to take over management of the formulation, planning, execution and administration of concession contracts for transportation infrastructure.
- 1.12 Although many of the reforms are in the process of being built on and strengthened, challenges can still be identified in institutional performance and project design and execution. Areas still in need of reform include: ensuring that the Ministry of Transportation's role is limited exclusively to planning and guidance; clearly defining the functions of the CRTR while providing homogenous treatment of the different rules and regulations for the different modes of transport; and strengthening the institutional capacity of the recently-established INCO. In terms of decentralization, the jurisdictions of the Ministry, the CRTR and the STP need to be clarified with respect to the rules to be applied by the departments and municipalities in operating the transportation for which they are responsible, including concessions and urban public transportation.

**b. Regional integration in the context of the Initiative for Regional Infrastructure Integration in South America (IIRSA) and competitiveness<sup>4</sup>**

- 1.13 In Colombia, transportation costs affect the competitiveness of exports and imports, since they account for a large percentage of the end price of goods. This is because the large consumption and production centers are located in the interior of the country, a long way away from ports and export markets in neighboring countries. It is therefore important to focus efforts on projects that help to reduce transportation costs along the main foreign trade corridors. In line with this objective, the government is working actively to develop activities and projects for regional integration that include different types of private participation. Most of the priority projects in transportation infrastructure with private participation are strategic projects within IIRSA's integration and development hubs.<sup>5</sup> Good progress has also been made in developing electricity interconnections with Ecuador and Venezuela, which is a first step toward the integration of energy markets.

**c. Private participation**

- 1.14 During the 1990s, the government was proactive in establishing and awarding concessions in all modes of transport and at all levels of government (national, departmental and municipal). They included building new infrastructure as well as the operation and provision of services. These initiatives have not all had the same success, but in general they have led to improvements in the quality and coverage of services. The major concessions are in highways, where most of the private participation in the sector concentrates. There have been significant privatization and concession processes in the other modes of transport as well.

**(i) Highways**

- 1.15 Concessions have led to the construction of 465.6 km of new roads, upgrades to 1,492.6 km and maintenance of 2,533.9 km in the national highway system<sup>6</sup> and generated investment in the sector of about US\$2.606 billion.<sup>7</sup> The highway concession program was developed in three stages called 'generations,' which have

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<sup>4</sup> The initiative is supported by the Bank, the Andean Development Corporation and FONPLATA.

<sup>5</sup> The integration and development hubs are multinational geographic strips where current and potential trade flows concentrate, in which the goal is to optimize the provision of physical infrastructure (transportation, energy and communications) to support the establishment of foreign trade corridors. The hubs are composed of groups of projects that are linked through an anchor project which, in turn, links to strategic projects horizontally or vertically.

<sup>6</sup> CONPES document 3045 (August 1999). "Programa de concesiones viales 1998-2000: tercera generación de concesiones" [Highway concession program 1998-2000: third-generation concessions].

<sup>7</sup> Database on private participation in infrastructure. World Bank (2003). Investment data are for total initial investments (public and private) in infrastructure projects with private participation.

sought to gradually eliminate the difficulties encountered in the previous stages by refining procedures for private-public cooperation and risk assignment. Under INCO's direction, the third generation of concessions is now being defined.

- 1.16 The first-generation highway concessions included minimum income guarantees that had to be honored, given that traffic was calculated using high growth rates which failed to materialize owing to the economic crisis and to safety concerns in recent years. The second generation partly corrected the problems in the design of the earlier concessions,<sup>8</sup> but encountered difficulties that arose from failure by one of the concessionaires to comply with the contractual conditions. At the regional level, there have also been departmental initiatives to concede roads. Some of these have run into problems, because they were not well structured and lacked good final designs and demand studies.
- 1.17 In general, the concessions made in the first two generations ran into problems related to: the lack of institutional capacity for monitoring and control; excessive emphasis on awarding the concession quickly; lack of linkage with other modes of transport; overscaling of projects; and flawed contracts. However, the government has taken significant steps to improve the design of future concessions and limit the pressure that the payment of guarantees exerts on the public purse. The third-generation concessions seek to correct these problems by: (i) incorporating the concept of 'transportation corridors';<sup>9</sup> (ii) evaluating current and potential demand in the technical and financial planning of projects; (iii) stepping up monitoring and control; and (iv) preparing more detailed studies of technical, financial, economic and environmental factors, as well as periodic provisioning and management of contingencies.
- 1.18 The evolution of the first-generation contracts has taught important lessons with regard to technical and contractual design and risk allocation that can be used in future projects. Despite the difficulties mentioned and the cost of this learning process, the concession projects have helped to raise the quality and coverage of the highway system and improve traffic conditions, particularly in accesses to cities. Also, private investment has had a positive impact on levels of efficiency in construction and the management of sector resources.

## **(ii) Ports**

- 1.19 The concessions for the main general cargo ports (Buenaventura on the Pacific and Cartagena, Barranquilla and Santa Marta on the Atlantic) were let in 1993 and

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<sup>8</sup> By adopting a variable term for concession contracts to ensure minimum returns in keeping with variable demand.

<sup>9</sup> These are end-to-end mobility solutions that, in addition to road construction, include the development of complementary works and tie the infrastructure under concessions in with other modes of transport, to establish export platforms.

generated at least US\$393 million in additional investment in the sector.<sup>10</sup> Today, the ports are operated by semipublic enterprises whose operating profits have improved considerably over the previous system. Data provided by the STP indicate that the waiting time for vessels in port has been reduced from 10 days before 1993 to 1.5 days. Hourly capacity to handle containers has risen from 16 to between 25 and 30. User fees have fallen by 52 percent compared to their levels prior to privatization.<sup>11</sup>

### **(iii) Airports**

- 1.20 Concessions have been granted for the airports of Cartagena, Barranquilla and Cali and the second runway at El Dorado Airport in Bogota. A plan to grant concessions for the Bogota and Medellín airports and some mid-sized airports is currently being studied.<sup>12</sup> These initiatives have generated an estimated additional investment in the sector of about US\$354 million since 1996, with US\$270 million of that sum going for investments in new infrastructure.<sup>13</sup>

### **(iv) Mass urban public transportation**

- 1.21 The urban transportation system was transformed with the introduction of the TransMilenio (TM) system of high capacity lanes for public buses in Bogota in December 2000. The TM operates under a novel institutional framework, in which the public sector is responsible for the infrastructure of the dedicated lanes and bus stops, and the private sector bids to operate that infrastructure. TM manages, coordinates and oversees the private operators, collecting and distributing revenues among them. At present, 850,000 passengers are moved each day (equivalent to 14 percent of the city's passengers) and major savings have been achieved, reflected in shorter travel times and fewer accidents. By the end of 2003, the private investment generated by projects in integrated mass transportation systems (IMTS) is expected to reach US\$1.086 billion.<sup>14</sup> Support has also been provided for traffic management programs with private participation, which, although they do not require large investments, have a substantial impact on travel in cities. In Ibagué, with the implementation of traffic management programs under a pilot transit and transportation plan, average travel time was shortened by about 15 percent.

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<sup>10</sup> Process supported by the public sector reform program, loan 615/OC-CO.

<sup>11</sup> Data provided by the STP in "Colombia: The Economic Foundations of Peace." World Bank (2003).

<sup>12</sup> Funded by the program to support private participation and concessions in infrastructure (PPCI).

<sup>13</sup> Database on private participation in infrastructure. World Bank (2003). Investment data are for total initial investments (public and private) in infrastructure projects with private participation.

<sup>14</sup> This includes investments in integrated mass transportation systems in Bogota, Cali and Pereira. Source: Departamento Nacional de Planeación [National Planning Department] (DNP).

### **3. Energy**

#### **a. Institutional and regulatory framework**

- 1.22 The Ministry of Mines and Energy (MME) oversees the sector. The state petroleum corporation, ECOPETROL, negotiates partnership contracts for the exploration and production of crude oil and gas and operates the country's largest refineries. It is also involved in oil and natural gas operations through joint ventures with private producers.<sup>15</sup> Today, there is no government presence in the coal industry. A regulatory commission (CREG) governs public residential electricity and gas services. Sector information and subsector plans are prepared by the MME's Mining and Energy Planning Unit (UPME). The Office of the Superintendent of Residential Public Utilities (SSPD) oversees the performance of residential service providers, as well as telecommunications and basic sanitation companies. The energy sector operates through public and private entities.

#### **b. Private participation**

- 1.23 The reforms implemented since 1992 include the sale of public electric utilities and private sector involvement in power generation and distribution and in establishing a wholesale power market. The electric power subsector has moved from being almost wholly in public hands ten years ago to having 60 percent private participation in installed generating capacity and 45 percent in customer service. Transmission continues to be a government monopoly.
- 1.24 Several generating plants, with a capacity of more than 5,000 MW, have been sold to private investors. The following remain in public hands: the generating company ISAGEN; Empresas Públicas of Medellín (EPM), a municipal company that has historically been profitable; Empresas Municipales of Cali (EMCALI), certain other municipal utilities; 14 national electric companies that serve relatively small markets and whose financial situation does not allow them to make the investments needed to improve quality and expand service coverage; and Interconexión Eléctrica S.A. (ISA), which is well positioned as a transmission company and has undertaken a successful process of diversifying its capital ownership and internationalizing its activities.
- 1.25 Generally speaking, it has been more difficult to privatize distribution than generation. The most successful case is the Empresa de Energía de Bogotá (EEB), which was capitalized and transformed from one of the sector's biggest problems into a company with outstanding earnings. Also, privatization of the distribution companies on the Atlantic coast can be considered an achievement,

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<sup>15</sup> As of 1 January 2004, contracts for exploration and production will be managed by the recently-established national oil and gas agency Agencia Nacional de Hidrocarburos (ANH), while ECOPETROL will focus on oil exploration, production, refining, transportation and sale.

despite the fact that the private companies that bought them have encountered many difficulties in overhauling them. Attempts were made to sell the other electric utilities in which the government holds a majority interest in the period 2000-2002, but the process was not completed and at present the companies are in a crisis situation.

- 1.26 An additional difficulty of private participation is posed by the problems encountered with power purchase agreements, or PPAs,<sup>16</sup> for buying and selling thermal power, which were entered into under the urgent conditions created by the 1992 electricity crisis. Contracts of this kind have had a heavy financial impact in terms of guarantees paid out by the government, and, for this reason, it was decided not to continue to use them for new generating projects.
- 1.27 Although the process was a success, continued efforts are needed to restore the sector's financial stability and resume the process of private participation, thereby ensuring sustained service delivery. Electrification of noninterconnected zones (known by their Spanish-language acronym, ZNI) is also a priority, given the potential boon for the country's peace process and the socioeconomic development of low-income groups.

#### **4. Communications**

##### **a. Institutional and regulatory framework**

- 1.28 The Ministry of Communications is the lead agency in the sector and is responsible for sector planning, development of the regulatory framework, administration and management of the radio frequency spectrum and the postal service, licensing and authorizing the operation of services. The Telecommunications Regulatory Commission (CRT) has functions related to the promotion of free competition and regulation in all matters related to telecommunications services, including rates. The CRT also regulates other activities relating to network access and interconnection and mediates, at the request of a party, in disputes over interconnection between service operators. The services are supervised and monitored by the SSPD, which oversees the services regulated by the CRT, including local, regional, national and international basic public switched telephone networks and local rural mobile telephone services. Lastly, the Office of the Superintendent of Industry and Trade is the authority responsible for the inspection, oversight and monitoring of free and fair competition in telecommunications services.

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<sup>16</sup> In these contracts, private investors undertake to build a generating plant in exchange for guaranteed purchases of power by the electric utilities, which in turn are counter-guaranteed by the government.



## **b. Private participation**

- 1.29 Since 1989, Colombia has been opening up its communications sector through a process of transition from a public monopoly to a competitive market in many telecommunications services. Today, there is competition in all telecommunications services and freedom to enter the market for local and long-distance telephone services, value-added services, carrier services, and others.
- 1.30 Also, cellular mobile telephone services and personal communications services are provided on competitive markets, to which suppliers gain access by obtaining government licenses. There is also some private participation in social telephone services, since the operators of the COMPARTEL “social telecommunications” program are private companies that receive resources under financial contribution contracts for the installation, operation and maintenance of points of telephone service for a given period of time. A connectivity agenda has been designed as a government policy, to expand access to information and communications technologies to all segments of society. As for the mail, postal service was provided exclusively by the public company ADPOSTAL until 1993, when the market was opened to competition and segmented into normal postal services and specialized courier services.

## **5. Water and sanitation**

### **a. Institutional and regulatory framework**

- 1.31 The municipalities are directly responsible for providing water and sewer services and waste collection for their population. The Autonomous Regional Corporations (CAR) act on the regional level, with responsibility for environmental policies in their jurisdictions and for overseeing their enforcement; managing water resources, including user fees and pollution; and granting environmental licenses and permits to take and dispose of water. The central agency at the national level is the Ministry of the Environment, Housing and Land Development (MAVDT). It is responsible for sector policies, plans and programs, training and technical assistance for the decentralized institutions, and technical standards for the design, construction, operation and maintenance of water, sewer and waste collection infrastructure, and providing financial support for the municipalities and service providers.
- 1.32 The Water and Sanitation Regulatory Commission (CRA) is responsible for establishing standards to ensure that water and basic sanitation services are provided efficiently, regulating monopolies and spurring competition, establishing criteria for evaluating the management and efficiency of service providers, and establishing methodologies for setting rates. The SSPD oversees and monitors compliance by service providers, to ensure that CRA rules are obeyed. The sector has about 2,000 service providers, given its special technical and economic characteristics.

**b. Private participation**

- 1.33 To solve the problems caused by a weak structure for private participation processes, a lack of political will in the municipalities to make rates reflect the cost of the service and other related problems, the Ministry of Economic Development organized a business modernization program, known by its Spanish-language acronym, PME. It incorporates policies on private participation in the sector and is intended to establish conditions that favor a more productive relationship between the public and private sectors. Significant progress has been made with the introduction of the program, including the involvement of specialized operators in 19 processes and the leveraging of US\$295 million in funding by private parties.

**C. Country strategy for the promotion of private participation in infrastructure**

- 1.34 The general objective of the country's strategy is to strengthen the mechanisms for privatization and concessions in infrastructure. To achieve this objective, the National Development Plan 2002-2006 provides for the institutional strengthening and reorganization of sector entities to build their capacity to monitor, control and supervise projects, particularly in the case of concessions, and to bring about the legal, financial and institutional conditions needed to promote the linkage of institutional investors to infrastructure projects. In addition, the plan stresses the priority of facilitating financing for private infrastructure projects, which will also promote the development of the capital market.
- 1.35 Apart from the guidelines established in the National Development Plan 2002-2006, the government is acting along the lines of National Economic and Social Policy Council (CONPES) documents 2775 of 1995 and 2852 of 1996, which pointed to the need to refine the mechanisms for private participation, include novel financing arrangements, and establish a policy for allocating risks and managing contingent liabilities. The actions identified in these documents have been gradually implemented, and the policy framework now incorporates lessons learned and lays the groundwork for more sophisticated arrangements from the technical, financial, legal, environmental and social standpoints.
- 1.36 As for financial planning, Law 448 of 1998 adopted measures to manage the contingent liabilities of public entities and established a contingency fund to introduce the concept of fiscal discipline into the management of such liabilities. The public entities transfer resources to the contingency fund, based on a plan of contributions, to cover any contingent liabilities arising out of the contractual risks assumed by the government that can be covered by the fund, as determined by the Ministry of Finance and Public Credit.

- 1.37 The strategy for managing contractual risk in private participation processes<sup>17</sup> covers the transportation, energy, communications and water and basic sanitation sectors and is applicable to central government agencies and the lower levels of government. The policy seeks to alter the risk matrix, so as to put the government on the best footing when developing projects with private participation. The identification and allocation of risks under this strategy is based on experience in projects contracted and executed during the 1990s. Its basic principle is that government agencies assume the risks inherent in their public nature and social function, and that contractors are responsible for the risks inherent in their operations.<sup>18</sup> Although infrastructure concessions in Colombia in the past have entailed high government exposure to the risks inherent in operating the services, note should be taken of the progress made in adopting measures to prevent the reoccurrence of such situations in future.
- 1.38 In environmental matters, Decree 1753 of 1994 establishes the jurisdiction and procedures for granting environmental licenses and establishes the obligations and conditions that the beneficiaries must satisfy to prevent, mitigate, correct, offset and manage the environmental impact of an authorized project, work or activity. The MAVDT grants environmental licenses for large-scale infrastructure works, while the Autonomous Regional Corporations grant licenses for small regional works. For projects, works or activities that the government wishes to carry out under the concession system, the MAVDT's decision on the merits of the diagnostic assessment of environmental alternatives must be obtained as a condition precedent to granting the concession.
- 1.39 Apart from the general policy of strengthening privatization and concession procedures, the government has developed specific strategies for promoting private participation in the transportation, energy, communications and water and sanitation sectors.

#### **a. Transportation**

- 1.40 The guidelines and strategy for private participation contained in the National Development Plan include: (i) continuing with the program of third-generation highway concessions; (ii) developing a management strategy for highway maintenance with private participation; (iii) supporting the lower levels of government in formulating projects; (iv) promoting the concession of airports in large and medium-sized cities; (v) supporting more private participation in railways, river and maritime transport; and (vi) supporting the development and

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<sup>17</sup> CONPES documents 3107 and 3133 of 2001. "Política de Manejo de Riesgo Contractual del Estado para Procesos de Participación Privada en Infraestructura" [Government contractual risk management policy for private participation in infrastructure].

<sup>18</sup> CONPES has the function of defining the guidelines to be followed by public entities when formulating projects, and of periodically reviewing risk allocation guidelines based on actual conditions in the country.

consolidation of the institutional framework of the different sector entities. Also, and in view of the positive outcomes of the TM, the government plans to continue supporting the integrated mass transportation system in Bogota and its extension to Soacha, and to support the development of such a system in Cali, Pereira-Dosquebradas, Barranquilla, Cartagena, Bucaramanga and Valle de Aburrá. The National Development Plan also calls for the implementation of traffic management programs in cities with populations of under 600,000.<sup>19</sup>

#### **b. Energy**

- 1.41 The strategy for private participation in electric power is established in the policy to bring electricity to noninterconnected zones (ZNI).<sup>20</sup> This policy proposes the competitive and transparent selection of electric-power investors, managers and operators who will guarantee service delivery under the best possible conditions of sustainability, quality, coverage and efficiency, considering the optimization of public funds. Although the problem of distribution requires attention, the authorities are still evaluating options for addressing it in the medium term.

#### **c. Communications**

- 1.42 The government's strategy is to achieve a significant increase in telecommunications services with a view to providing most Colombians with access to information and communications technologies, based on the concept of universal access and service. To that end, the National Development Plan envisages the introduction of community programs for social telephone services, with the goal of installing 3,000 points in as many locations and setting up, operating and maintaining 500 telecenters. It also plans to generalize the use of information and communications technologies, promote the development of competitive markets and strengthen the regulatory and institutional framework around competition, convergence, globalization and universal service. It will also strengthen the sector's regulatory and institutional framework, building on the four factors that have spurred the development of the telecommunications industry: competition, convergence, globalization and universal service. This is expected to promote healthy competition, encourage private investment and remove impediments to private initiative in the sector.

#### **d. Water and basic sanitation**

- 1.43 The National Development Plan recognizes the importance of continuing to promote private participation in public residential services and provides for

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<sup>19</sup> CONPES document 3167 (May 2002). "Política para mejorar el Servicio de Transporte Público Urbano de Pasajeros" [Policy to improve urban public passenger transportation services].

<sup>20</sup> CONPES document 3108 (April 2001): "Programa de Energización para Zonas No Interconectadas (ZNI)" [Electrification program for noninterconnected zones].

continued strengthening of the business modernization program run by the MAVDT. In recent years, the program has become the main tool for improving levels of coverage and quality in the provision of water, sewer and waste collection services. Its basic objectives are to: (i) improve the technical quality of process structuring; (ii) reduce the uncertainty and financial risks of projects, seeking to attract private capital to free up public resources; (iii) harness the economies of scale arising from the regional administration of the services; and (iv) establish a comprehensive framework (financial, technical, commercial, institutional and legal), so that venture capital can effectively and feasibly be harnessed in the sector.

## **D. The strategy and experience of the Bank and other donors**

### **1. The Bank's country strategy**

- 1.44 The Bank's country strategy identifies three overarching objectives as the frame of reference for Bank activity in the period 2003-2006: (i) lay the foundation for economic revival and jumpstarting growth; (ii) foster social progress and make sure society's most vulnerable are protected; and (iii) strengthen governance and further reforms of the State. By developing infrastructure with private sector support and strengthening policy, regulatory, concessioning and oversight agencies institutionally, the proposed program will contribute directly to objectives (i) and (iii). Higher quality and efficiency and expanded coverage of infrastructure services will help to boost the productivity and competitiveness of the economy, facilitating and promoting sustainable economic growth.

### **2. The Bank's sector strategy**

- 1.45 With regard to private participation in infrastructure, the Bank's activity is in line with the guidelines established in its strategies for competitiveness (document GN-2243), infrastructure development (document GN-1884-1), the energy sector (document GN-1969-4), and integrated water resources management (document GN-1908-4). The program's focus is consistent with the guidelines of these policy documents, and all the actions envisaged are covered by the competitiveness strategy. The proposed program echoes the underlying reasoning behind these strategies, since it proposes to consolidate the reforms begun in the last decade with a view to promoting greater private-sector participation and assuring the efficient and universal provision of quality infrastructure services.

### **3. The experience of the Bank and other donors**

- 1.46 The Bank has considerable experience in the sectors and the country, having provided technical and financial support for stage one of the program in support of privatization and concessions in infrastructure, and through ongoing support for other private-sector development initiatives. Program stage one supported the formulation of specific privatization and concession projects in infrastructure and

the development of sector regulations and policies. To finance the program's technical-cooperation activities, the government secured US\$25 million in two loans, one with the IDB (927/OC-CO, 1996) and one with the World Bank (IBRD 4138-CO, 1997), each for US\$12.5 million equivalent. The government, for its part, undertook local contributions of US\$8 million for a total program cost of US\$33 million.

- 1.47 Earlier, the public sector reform program (615/OC-CO), which also received World Bank financing, and the sector investment program (640/OC-CO) contributed to sector reforms at the start of last decade. Both programs had parallel technical-cooperation projects and led to major reforms in the electricity, telecommunications and ports sectors. Also, the electric power sector program (1159/OC-CO) supported the introduction of regulatory and institutional reforms in the sector, including the development of a policy to electrify noninterconnected zones and the partial involvement of private capital in the distribution companies. The sector program for public utilities (1578/OC-CO), approved in September 2004, supports implementation of a series of reforms to ensure that public electricity, telecommunications, water and sanitation services fulfill their objectives of equity, efficiency, quality and sustainability, and to promote a better climate for private investment.<sup>21</sup>
- 1.48 This program does not involve direct coordination with other official development institutions. However, its expected outcomes will contribute indirectly to developing their strategies and current programs in the country. The World Bank's action in infrastructure stresses the establishment of efficient and well-managed services. In transportation, the urban services project for Bogota was recently launched to improve mobility in the city. The World Bank's strategy does not include specific actions in the energy sector. It has been involved in the water and sanitation sector through the US\$40-million project to provide assistance for sector reform approved in 2001, whose main objective is to create the conditions for efficient and sustainable provision of water service by involving the private sector in their management and operation in the cities on the Atlantic coast. Also, the World Bank and the government are exploring the possibility of an urban mass transportation program. The Andean Development Corporation (CAF) plans a transportation sector operation that includes public projects for construction, improvement and maintenance of primary, secondary and tertiary roads, a project to make the Magdalena River navigable again, a project for the construction and repair of runways at small airports in remote parts of the country, and a sector loan for urban mass public transportation.

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<sup>21</sup> Some of the proposed program resources will support execution of loan 1578/OC-CO.

## **E. Program strategy**

- 1.49 The government is committed to continuing the process of modernizing infrastructure. With a view to obtaining significant and effective private participation in this modernization process, the country needs to continue working to create an enabling environment for private investment, refining existing arrangements and implementing new ways of promoting private participation in the delivery of infrastructure services.
- 1.50 The strategy of the proposed program is to capitalize on the government's commitment, continuing the Bank's technical and financial support for the modernization process. The program strategy rests on three main pillars: (a) the lessons learned in stage one; (b) implementation of the actions needed to address current challenges to the process of private participation in infrastructure; and (c) attention to specific sector needs.
- 1.51 **Lessons learned.** The evaluation of stage one of the program concluded that it is important for the country to continue supporting privatization and concessions in infrastructure through programs of this kind, and proposed adjustments for the design of stage two.<sup>22</sup> In addition to the lessons learned with respect to the design of program execution, there are success stories of private participation in projects, which should be replicated and made the most of, to consolidate the process of modernizing infrastructure services.
- 1.52 With respect to the execution mechanism, the recommendations of the evaluation of stage one stress the need for the following adjustments: (a) concentrate program management in a single executing agency (DNP) and delegate development of annual operating plans to a high-level strategy committee of the DNP and the MHCP; (b) establish specific performance benchmarks and baselines, so that the impact of the program can be evaluated in future; (c) design mechanisms to ensure the sustainability of the institutional capacity of the agencies to be strengthened; (d) select the entity to administer program resources on a competitive basis; (e) improve the operations manual, establishing clear rules to govern the actions and procedures of the executing agency; (f) make it possible for beneficiary agencies to partially finance activities with their own funds, to obtain a firmer commitment to effective implementation of the recommendations; (g) establish criteria for setting priorities, to better screen activities to be included in the annual work plans (AWP); and (h) emphasize the handling of environmental factors and their relationship to policy and regulation in the infrastructure sectors. All these

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<sup>22</sup> The final report on the evaluation of stage one of the program can be consulted at <http://ops/re3/FI3/Documents/ACF42F2.pdf>. The evaluation of the Bank's program in Colombia: 1900-2002, recently performed by OVE, gives a favorable evaluation of the effectiveness of this program in the chapter on development outcomes.

considerations have been incorporated into the strategy and design of stage two of the program.

- 1.53 The government also has strategies that reflect lessons learned over the past 10 years on the technical, legal, financial and environmental aspects of projects with private participation. There have been success stories in the concession of water and sewer services, electric power distribution, urban mass transportation, and other areas. In addition, the outcomes of stage one corroborate the existence of a favorable cost-benefit ratio for programs of this type. It is worth stressing that US\$2.792 billion in private investment and US\$2.623 billion in public investment were generated through private participation processes, prepared and promoted with funding under stage one of the program.<sup>23</sup> The proposed program will strengthen and implement the government's strategies and provide continuity for the development of successful mechanisms for generating effective private investment.
- 1.54 **Today's challenges in private participation in infrastructure.** The country still needs to make a major effort to invest in developing and modernizing its infrastructure. To fill this investment gap, it needs to improve existing mechanisms and promote new initiatives for private participation. Today's challenges include: improving the political and regulatory frameworks with a view to fostering and maintaining an enabling business environment for private investment; technical and financial support for greater private participation at the subnational level; and institutional development of sector entities at the national and subnational levels.
- 1.55 **Specific sector requirements.** In the transportation sector, efforts will be directed to supporting the highway expansion program, designing and implementing highway rehabilitation and maintenance funds with private sector involvement, and boosting private participation in the different modes of transport. In urban public transportation, the conceptual design and concession structure for high-capacity dedicated corridors for the operation of integrated private bus systems in cities with populations over 600,000 will continue, and traffic management programs will be developed in the smaller cities. In the energy sector, private participation needs to be promoted in the noninterconnected zones, and effective solutions be found to the problems of the electric utilities on the national level. In the water and sanitation sector, the priority is to formulate specific projects for private participation in the rehabilitation, construction, operation and maintenance of water, sewer and waste collection services.
- 1.56 The second stage of the privatization and concessions program will have a better execution design and supply the technical and financial resources to meet these sector needs in a timely manner and address new challenges in an ongoing reform agenda. The Bank's continued presence in the infrastructure sectors, particularly

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<sup>23</sup> Of the total, US\$300 million in private investment and US\$114 million in public investment are for processes that have not yet concluded.



through operations of this kind, will provide the government with timely resources to develop its policies and strategies for private participation and to develop and promote infrastructure projects in line with those strategies. It will also support sector regulatory, concessioning and oversight agencies and related environmental agencies.

## **II. THE PROGRAM**

### **A. Objectives**

- 2.1 The general objective of the program is to facilitate and encourage private participation in infrastructure with a view to promoting efficient delivery of quality services. The specific objectives are to: (a) consolidate and sustainably strengthen the technical and institutional capacity of policy, regulatory and oversight agencies in the infrastructure sectors; and (b) support the development of new processes for private participation in high-impact strategic projects, in line with sector development plans.
- 2.2 To achieve these objectives, the program will supply resources for beneficiaries to develop and strengthen the policy, regulatory, concessioning and oversight frameworks in the transportation, energy, communications and water and sanitation sectors. In addition, these resources will make it possible to perform a comprehensive evaluation of the feasibility of specific projects under private participation strategies and support their preparation and promotion. The large number of concessions and privatizations carried out as part of the reform and modernization process begun in the last decade and the current level of private investment in infrastructure projects in Colombia and the region have prompted the government to emphasize achieving the program's objectives with fewer resources. Accordingly, the program will support only a small portion of the activities planned for national and subnational entities, and only those activities that meet specific priority-setting criteria (see paragraph 3.12).

### **B. Description**

- 2.3 Stage two of the program is a flexible and timely instrument for financing high-impact activities in line with sector strategies for private participation. The program will supply the necessary technical and financial support to lend continuity to the process of modernizing infrastructure in Colombia. It will include a multidisciplinary strategy and a sturdy, sustainable design based on lessons learned in stage one. The program has two components: (1) institutional development and strengthening for policy, regulatory, concessioning and oversight agencies; and (2) preparation and promotion of specific projects for private participation.

#### **1. Institutional development and strengthening for policy, regulatory, concessioning and oversight agencies (US\$1.7 million)**

- 2.4 The objective of this component is to consolidate and sustainably strengthen the technical and institutional capacity of policy, regulatory, concessioning and oversight agencies in the infrastructure sectors. To achieve this objective, this component will finance the strengthening and consolidation of the regulatory,

- concessioning and oversight mechanism for transportation, energy, communications, and water and sanitation services. Consulting services will be supported to identify ways of strengthening the institutional system for regulation and control, ensuring the political independence of these agencies in their work, with due accountability and public debate of regulatory proposals and decisions.
- 2.5 In view of the dynamic nature of utility regulation, concessioning and oversight issues, technical assistance will be financed for the regulatory commissions, superintendents' offices and environmental agencies to study and develop specific approaches to private participation in service delivery and development of related infrastructure.
- 2.6 The component will also support activities for the development and institutional strengthening of beneficiaries committed to specific private participation processes—the preparation of which will be funded by the program—enabling them to build up the institutional capacity necessary for effective and timely oversight of the commitments made by private parties. Critical evaluations of concessioning systems will be done, to identify any necessary adjustments. Studies will also be funded to identify overarching private participation strategies for other infrastructure sectors.
- 2.7 In view of the recent separation of the planning, execution, regulatory, oversight and control functions in the transportation sector, support will be provided to build up the sector's institutions. As part of the activities, support for the development and consolidation of the CREG, CRT, CRA, and others will continue. In the case of the STP, a program will be designed to support the agency's work and establish a framework for evaluating its performance. INCO will also receive support with regard to the management, monitoring and administration of current concession contracts.
- 2.8 As support for existing processes to develop the decentralized transportation sector, the departments and municipalities will receive technical support to augment the benefits of the program for private-sector participation in infrastructure, with the basic criterion of providing access for the poorest and most remote regions.

## **2. Preparation and promotion of specific private participation projects (US\$4.9 million)**

- 2.9 The objective of this component is to support the development of new processes for private participation in high-impact strategic projects within the framework of development plans for the infrastructure sectors. To achieve this objective, this component will finance the advisory services needed to design specific private participation projects for the upgrading, construction, operation and maintenance of infrastructure services in the transportation, energy, communications and water and sanitation sectors.

- 2.10 The funds can be used to evaluate the technical, economic, financial, institutional, legal, social and environmental aspects of these projects, and to study and design novel mechanisms for private participation in infrastructure. The program can also provide technical and financial support for processes to restructure existing concessions.
- 2.11 Among the different private participation approaches, the program will evaluate the option of providing technical and financial support for mechanisms to diversify capital ownership, thereby channeling long-term resources into infrastructure projects and promoting local capital market development. The program could provide support for the government's initiative to create social capitalization funds, which seek to involve the users of public utilities as shareholders, attracting additional investment and promoting community participation in utility management.
- 2.12 In transportation, support will be provided for the planning and promotion of third-generation highway concession projects. Once progress is made in the main highway system, the private participation arrangement would be extended to sectors where there are no concessions, evaluating the different levels of intervention required and assuring their maintenance and operation, with the objective of offering transportation corridors with a uniform level of service for users. This includes support for the integration infrastructure projects identified under IIRSA, such as highway corridors and border service centers with private participation, already at an advanced stage of preparation. Support will also be provided for projects in different stages of preparation that form part of the private participation program in the transportation sector. They include: the establishment of road maintenance funds with private participation; studies of project feasibility in other modes of transport; the concession of airport terminals; the design and formulation of integrated mass transportation systems in medium-sized cities; and the preparation and implementation of traffic management plans in cities with populations under 600,000.
- 2.13 As for airports, support will be provided for a feasibility study on implementing private, or joint public and private, participation at a selected group of airports. Also, based on the pilot projects in urban mass transportation and following the recently-approved policy to improve the public passenger transportation system,<sup>24</sup> support will be provided for municipal governments in mid-sized cities in preparing technical preinvestment and socioenvironmental studies for establishing integrated mass transportation systems. For small cities, support will be provided for studies on the design and implementation of traffic management plans. The studies will determine the problems linked to the transportation system in each city and their solution, with private participation.

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<sup>24</sup> CONPES document 3167 (May 2002). "Política para mejorar el Servicio de Transporte Público Urbano de Pasajeros" [Policy to improve urban public passenger transportation services].

- 2.14 In the energy sector, a more sustainable sector model will be supported through actions to foster private participation in power generation and distribution companies that are still publicly owned. In the case of the noninterconnected zones, which are a high priority owing to their social makeup and impact on the peace process, consulting services will be financed to find alternatives to traditional grid extension, with financial and promotional instruments that guarantee their sustainability. This will include support for designing concessions to manage, operate and maintain the systems.
- 2.15 In the communications sector, support will be provided for the design of specific projects to promote competition, integration and globalization, especially of local businesses. Alternatives will be studied for the entry of new operators into mobile telephone services and for the further development of social telephone programs. Support will also be provided for aspects of the connectivity agenda that involve private-sector participation.
- 2.16 In the water and sanitation sector, financing will be provided for the design of specific private participation projects to upgrade, build, operate and maintain water, sewer and waste collection services not covered by World Bank financing for the sector, but which are necessary for the National Water Plan.

**C. Cost and financing**

- 2.17 The cost of the program will be US\$7.15 million, with US\$5 million in financing (70 percent of the total) from the Bank's Ordinary Capital, and a local counterpart contribution of US\$2.15 million (30 percent of the total). The project will be executed over four years.

**Table II-1. Total cost of the program (in US\$)**

Item	IDB	Local	Total	
			Cost	%
<b>1. Administration</b>	200,000	214,500	414,500	5.80%
1.1 Program coordination unit (PCU)	200,000	0	200,000	2.80%
1.2 Program management firm (PM)	0	214,500	214,500	3.00%
<b>2. Direct costs</b>	4,700,000	1,908,413	6,608,413	92.43%
2.1 Institutional development and strengthening	1,175,000	482,103	1,657,103	23.18%
2.2 Project preparation and promotion	3,525,000	1,426,310	4,971,310	69.25%
<b>3. Associated costs</b>	60,000	-	60,000	0.84%
3.1 Audits	40,000	-	40,000	0.56%
3.2 Monitoring and evaluation	20,000	-	20,000	0.28%
<b>4. Contingencies</b>	40,000	-	40,000	0.56%
<b>5. Financial expenses</b>	-	27,087	27,087	0.38%
5.1 Inspection and supervision	-	-	-	0.00%
5.2 Credit fee <sup>25</sup>	-	27,087	27,087	0.38%
<b>Total</b>	<b>5,000,000</b>	<b>2,150,000</b>	<b>7,150,000</b>	<b>100%</b>
<b>Percentage</b>	<b>70%</b>	<b>30%</b>	<b>100%</b>	

## **D. Bank financing terms**

- 2.18 The interest rate, credit fee and inspection and supervision fee mentioned in this document are set on the basis of document FN-568-3-Rev., and may be modified by the Board of Executive Directors, taking account of performance to date and the recommendation of the Finance Department. In no event will the credit fee exceed 0.75 percent, or the inspection and supervision fee 1 percent. Table II-2 presents the terms and conditions of the loan.

<sup>25</sup> Annual rate of 0.25 percent on the undisbursed daily balance of the loan, or an estimated US\$27,087 (0.38 percent of the total program cost) for the entire disbursement period.

**Table II-2**  
**Terms and conditions of the loan**

Source:	Ordinary Capital (OC)
Amount:	US\$5 million
Periods:	
Amortization:	20 years
Grace:	4 years
Disbursement:	4 years <sup>26</sup>
Financial costs:	
Interest rate:	Adjustable option
Inspection and supervision: <sup>27</sup>	0.00%
Credit fee:	0.25 percent on the undisbursed balance
Currency:	United States dollars, Single Currency Facility

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<sup>26</sup> Under Bank policies, the loan may not be fully disbursed in less than three years, running from the effective date of the loan contract.

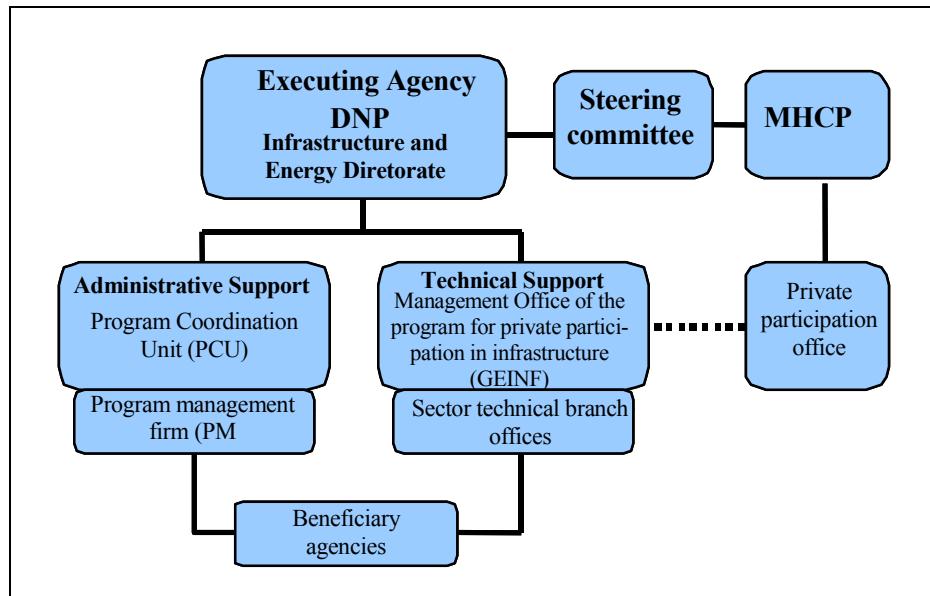
<sup>27</sup> In no case will the inspection and supervision fee exceed, in a given six-month period, the amount that would result from dividing 1 percent of the loan amount by the number of six-month periods in the original disbursement period.

### III. PROGRAM EXECUTION

#### A. Borrower, guarantor, and executing agency

- 3.1 The Republic of Colombia will be the borrower and guarantor. Building on lessons learned in stage one, the program will have a single executing agency: the National Planning Department (DNP), acting through its Infrastructure and Energy Directorate. The directorate will work under the guidance of a steering committee with administrative support from a program coordination unit (PCU) and technical support from management office of the program for private participation in infrastructure (GEINF).

**Figure III-1. Program Organizational Chart**



#### B. Execution mechanism

##### 1. Steering committee

- 3.2 The steering committee (SC) was established to execute stage one of the program and is composed of the director of the DNP's Infrastructure Unit and the General Deputy Minister of the Ministry of Finance and Public Credit (MHCP). The SC will meet twice a year and will bear the main responsibility for the strategic direction of the program and developing annual work plans (AWPs) based on the program's priority-setting criteria (see paragraph 3.12).
- 3.3 The specific functions of the SC will be to: (a) ensure that the program's objectives are met; (b) approve the AWPs; (c) periodically monitor the program's progress;



(d) approve the program's procurement plan; (e) study and approve any changes that may be necessary for efficient program execution, after obtaining the Bank's nonobjection, if required; and (f) examine the findings of program audits and take any recommended action.

## **2. Program coordination unit**

- 3.4 The program coordination unit (PCU) was established to execute stage one of the program and is composed of a coordinator, a procurement specialist, a financial analyst, an attorney and an administrative assistant. The PCU's main responsibility will be to coordinate the program and serve as the single point of contact with the Bank on matters of compliance with its conditions on procurement, disbursements, information activities, financial statements and monitoring and evaluation.
- 3.5 The PCU will have the following specific functions: (a) to support the DNP's Infrastructure Directorate in preparing and coordinating activities to develop program-funded projects; (b) to submit the reports specified in the loan contract to the Bank and, in general, whatever information it or other oversight bodies may request; (c) to prepare and coordinate the signature of the interagency agreements to cement the financial and implementation commitments made by the beneficiary agencies; (d) to contract and supervise the work of the program management firm (PM); (e) to assist in developing AWP's; (f) to contract the program auditors following Bank policies and procedures; (g) to ensure proper coordination within the DNP, and between the DNP and beneficiaries; and (h) to coordinate and implement the strategy for disseminating program activities and achievements.

## **3. Management office of the program for private participation in infrastructure projects**

- 3.6 The management office of the program for private participation in infrastructure projects (GEINF) was established in 1995, to provide the technical capacity necessary for execution of stage one of the program. Its main objective is to provide technical support for the development and promotion of private participation in infrastructure. The DNP has set aside an annual budget for GEINF's operation. Its main function will be to provide the technical assistance needed to formulate private participation processes.
- 3.7 The GEINF will have the following specific functions: (a) to coordinate the activities of the sector technical branch offices; (b) to promote the program among potential beneficiaries; (c) to provide advisory services in the identification and definition of activities to be financed under the program; (d) to support the beneficiaries in preparing terms of reference and bid documents for technical-assistance projects; (e) to support the beneficiaries in designing tender processes; (f) to promote the projects; and (g) to monitor strategic programs and projects. The GEINF will coordinate these functions with the MHCP's Private Participation

Office, which will also provide technical support to the ministry for its participation in the steering committee.

#### **4. Beneficiary agencies**

- 3.8 The beneficiaries will be the policy, regulatory, supervisory, control, oversight and concessioning agencies at the national and subnational levels. They include the sector ministries and their specialized agencies, regulatory commissions, departmental and municipal governments, superintendencies, and State-owned industries and businesses, and others. To promote a sense of ownership of the program among the beneficiaries, they will have the responsibility of preparing the terms of reference for contracting consulting services and supervising activities.

#### **5. Program management firm**

- 3.9 To manage program funds and contracts for consulting services and procurements of goods, the DNP will utilize its own resources to select and contract a program management firm (PM). Contracting the firm will be a condition precedent to the first disbursement of the loan.<sup>28</sup>
- 3.10 The PM will have the following functions: (a) to review, execute, perform and terminate procurement contracts for consulting services and goods; (b) to initiate and supervise contracting procedures to ensure compliance with all applicable rules and identify any necessary adjustments; (c) to transfer the goods procured to the DNP, a party designated by it, or whomever the program requires; (d) to pay contractors; (e) to keep the PCU informed about all transactions performed with program funds; (f) to submit accounting and financial information as required under Bank rules; (g) to open and maintain separate, specific bank accounts for managing the Bank loan proceeds and the local counterpart funds; and (h) to ensure that program resources are used and managed transparently.
- 3.11 The PCU and the PM will enter into an administrative agreement establishing: (a) the responsibilities of the PM; (b) the procedures for transfer of funds contributed by the beneficiary agencies; (c) the minimum requirements for submission of accounting and financial information; and (d) such other measures as may be necessary for efficient and transparent program execution.

#### **C. Priority-setting criteria**

- 3.12 To achieve the greatest possible impact in a context of scarce resources, activities will be selected for inclusion in AWP and prioritized based on specific criteria. These criteria will be used to strategically select activities to be financed under the

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<sup>28</sup> The Government of Colombia plans to utilize its own resources to engage the United Nations Development Programme to act as program management firm.

program. The following guidelines will be used to set priority: (a) impact; (b) commitment and contribution of resources by beneficiary agencies; and (c) linkage with the government's strategies for the sectors and for private participation. In addition to determining whether these criteria are met, parallel activities will be carried out to effectively disseminate information related to the program, thereby ensuring equitable access by potential beneficiaries.

**a. Impact**

- 3.13 The program will focus on activities to prepare high-impact projects which, when completed, will result in actual private investment and in better entry conditions for private investors.

**b. Commitment and financial contributions by beneficiary agencies**

- 3.14 To promote a greater commitment to activity outcomes and following a recommendation made in the evaluation of stage one, priority will be given to activities where the beneficiaries supply resources to cover part of the local contribution and establish an institutional counterpart to supervise the planned activities and learn from the process. This requirement to supply resources will not be exclusionary.
- 3.15 To make this priority-setting criterion feasible, the PCU will implement a strategy based on institutional coordination commitments designed to foster among beneficiary agencies a greater sense of ownership of the objectives of the funded studies and ensure that the findings will be incorporated into their work programs. These commitments will be formalized in interagency agreements, in which the beneficiaries make institutional and technical commitments and guarantee that they will channel funds into the program through the PM.

**c. Linkage with the government's strategies for the sectors and for private participation**

- 3.16 The program will focus on the strategic activities identified in the National Development Plan 2002-2006, as well as on those established in the CONPES policy documents for the specific sectors and for the promotion of private participation in general.

**D. Execution**

- 3.17 **Activity identification and selection.** The DNP will undertake to inform potential beneficiaries about the program and to accept and consider proposals for specific activities. Activities identified by the DNP will be evaluated as to whether they meet the priority criteria described above. The outcomes of this evaluation will determine which activities are eligible for funding with program resources. The DNP will submit its preliminary set of selected activities to the steering committee

for approval. Once approved, the DNP will submit the selected activities to the Bank for approval in accordance with the requirements and procedures described in paragraphs 3.18 and 3.19.

- 3.18 **Annual work plans (AWPs).** The program will be executed on the basis of AWPs, which will identify specific activities to be funded, beneficiaries, uses and sources of funds, targets and the expected outcomes of these activities in the context of sector development and private participation strategies and plans. In the final month of each year, the DNP will submit the following to the Bank for approval: (a) the AWP prepared by the steering committee for the following year; (b) a list of beneficiary agencies contacted and the activities they proposed; and (c) a report with the reasons for selection of the activities ultimately included in the AWP. To be eligible, activities must meet the program's criteria for setting priorities (see paragraph 3.12).
- 3.19 The DNP will also submit annual progress reports on the AWPs. The Bank will review those reports to verify progress on the activities identified, the technical quality of the results obtained and progress toward the program targets (see the logical framework in Annex I). The work plan for the first year, a tentative version of which is provided in Table III-1, will form an integral part of the initial report to be delivered prior to the first disbursement, as described in the Bank's General Conditions.
- 3.20 **Execution.** Once the AWP is approved, the DNP will provide the beneficiary entities with technical and administrative support in carrying out the program activities. The GEINF will support the beneficiaries in developing terms of reference and in other technical areas. Working through the PM, the PCU will engage consulting services and manage resources. The beneficiary entities will supervise the activities.
- 3.21 **Operations manual.** Program execution will be governed by an operations manual, which will include: (a) a general description of the program; (b) its institutional structure; (c) a description of the functions of the participating entities and guidelines for their coordination with the PCU; (d) the criteria for prioritizing activities; (e) procedures for managing financial resources and the responsibilities of the PM; (f) rules for the procurement of goods and consulting services; (g) the strategy and mechanisms for contributions of resources by the beneficiaries; (h) procedures for ensuring sufficient dissemination and transparency in program activities; (i) environmental and social requirements to be taken into account by sector policy and regulatory agencies, and the procedures to ensure full disclosure and transparency of program activities; (j) environmental and social requirements to be taken into account by sector policy and regulatory agencies, and the social and environmental review procedures applicable to private participation in infrastructure; and (k) factors relating to supervision, monitoring and control, etc. The DNP has submitted a preliminary version of the operations manual. The entry

into force of the operations manual will be a condition precedent to the first disbursement of loan proceeds.

**Table III-1**  
**Tentative work plan for project year one<sup>29</sup>**  
**(in US\$)**

Activity	Total Cost	IDB	Local	Beneficiaries/ Cofinancing
<b>Development and institutional strengthening of policy, regulatory, concessioning and oversight agencies</b>				
Institutional and financial reform of public services	200,000	175,000	25,000	SSPD/regulatory commissions/DNP/MHCP
Support the policy on competition, universal access and regulation of private participation in the telecommunications sector	90,000	70,000	20,000	Communications Fund
<b>Total component</b>	<b>290,000</b>	<b>245,000</b>	<b>45,000</b>	
<b>Preparation and promotion of specific private participation projects</b>				
<b>Transportation</b>				
Design and development highway maintenance funds	60,000	45,000	15,000	INVIAS
Design private participation processes for the expansion, improvement, maintenance and operation of airports	120,000	120,000	0	AEROCIVIL
Integrated mass transportation system in Cúcuta	115,000	90,000	25,000	Municipality/ FONADE
Preparation of concession projects	59,298	42,721	16,577	National government/ INCO
<b>Total transportation</b>	<b>354,298</b>	<b>297,721</b>	<b>56,577</b>	
<b>Energy</b>				
Advisory services for the design and implementation of business solutions to bring power to noninterconnected zones	100,000	100,000	0	ZONE / IPSE
<b>Total energy</b>	<b>100,000</b>	<b>100,000</b>	<b>0</b>	
<b>Water and basic sanitation</b>				
Technical, financial and legal structure to bring in specialized operators	80,000	80,000	0	MAVDT
<b>Total water and basic sanitation</b>	<b>80,000</b>	<b>80,000</b>	<b>0</b>	
<b>Total component</b>	<b>534,298</b>	<b>477,721</b>	<b>56,577</b>	
<b>Total</b>	<b>824,298</b>	<b>722,721</b>	<b>101,577</b>	

<sup>29</sup> The annual work plan does not include administrative, associated, financial or procurement costs.

**E. Consulting contracts and procurements**

- 3.22 Consulting services and goods will be procured in accordance with Bank policies and procedures. Before beginning the selection process and after complying with any applicable local requirements, the PCU will submit all documentation on procurements and the hiring of consulting firms to the Bank for approval (terms of reference, selection procedures, bid documents, etc.) .
- 3.23 International competitive bidding will be used for consulting services when the estimated cost is US\$200,000 equivalent and over. For goods and related services, international competitive bidding will be used when the cost is US\$350,000 equivalent and over.
- 3.24 When the value of a contract for consulting services is US\$50,000 equivalent or more, but less than US\$200,000 equivalent, local competitive bidding will be used. As part of the local competitive bidding system and with the Bank's prior nonobjection, a short list may be prepared through prequalification by invitation. Under this method, between three and six consulting firms can be selected for the short list without an open prequalification process. The list must be the result of healthy competition among possible firms. The Bank will evaluate these lists during the program. Bank approval will also be required before notifying the firms that they are on the short list or inviting them to submit proposals. Use of this method is justified, because there is a sufficient number of specialized firms in the domestic market able to provide the consulting services required by the program.
- 3.25 **Ex post reviews.** Selection and contracting of the PM will be subject to evaluation of its institutional capacity to carry out program procurements and contracting. Based on experience in stage one, and insofar as the Bank considers that the selected PM has the necessary institutional capacity, ex post evaluations may be performed for contracts for the services of consulting firms and professionals whose fees do not exceed US\$50,000. The Bank will retain the services of a consultant to apply the methodology recently developed by ROS/DAU entitled "Ex post review guide for disbursement and procurement processes" (document AF-600). Use of ex post reviews will be evaluated during the program to determine whether it should be continued.
- 3.26 **Selection based on quality and price.** This type of selection will be used for specialized consulting services (investment banks or consortia led by investment banks) in relation to concessions and privatizations, when the estimated cost exceeds US\$200,000 equivalent. This approach is justified by the nature of the international market for such services, where price is a determining factor in the award of contracts. A procedure will be employed that allows for unified evaluation of the technical and cost aspects of the bids. Technical merit may not carry a weight of less than 70 percent, or price of more than 30 percent. Selection criteria must always be submitted to the Bank for approval prior to beginning the process.

Requests for proposals should specify the explicit nature of the price factor in the evaluation procedure.

- 3.27 The procurement and contracting rules will be set out in the program's operations manual, which will reflect lessons learned in stage one and seek to streamline contracting processes, in accordance with Bank policies and procedures. The program calls for no construction of works. The tentative procurement plan is attached as Annex II.

#### **F. Disbursements and revolving fund**

- 3.28 A revolving fund will be established for disbursements, equivalent to 5 percent of the loan. In the event that such amount is too low to generate sufficient cash flow to meet program commitments, the borrower may ask the Bank to increase it, in accordance with the applicable Bank policies and procedures. The executing agency will be responsible for delivering semiannual reports on the revolving fund to the Bank within the 60 days after the close of each period.

#### **G. Execution period and disbursement schedule**

- 3.29 The program will be executed over three to four years after the loan contract comes into force. It is anticipated that the loan will be fully disbursed within four years after that date. Table III-2 presents a summary of the disbursement schedule.

**Table III-2**  
**Tentative disbursement schedule (in US\$)**

<b>Source</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Total</b>
IDB	728,845	1,610,000	1,400,000	1,266,155	5,005,000
Local	312,362	690,000	600,000	542,638	2,145,000
Total	1,041,207	2,300,000	2,000,000	1,808,793	7,150,000

#### **H. Retroactive financing**

- 3.30 Provided that the procurement procedures established in the loan contract have been followed, the Bank may retroactively finance from the loan proceeds up to US\$250,000 equivalent (5 percent of Bank financing) in expenditures made between 1 January 2003 and the date on which the loan is approved.

#### **I. External audits**

- 3.31 Operational and financial audits of the program and financial audits of the program administrator will be performed by an independent firm of auditors acceptable to the Bank. The audits will be financed from loan proceeds and will be performed in

accordance with Bank policies and procedures. The terms of reference for contracting the independent auditors will correspond to the model established by the Bank (document AF-400), and the selection process will follow the guidelines established for the procurement of audit services (document AF-200). The scope and nature of the activities to be performed by the firm should be in accordance with the Bank policy on the audit of projects and entities (document AF-100) and the guidelines for the preparation of financial statements and independent audit requirements (document AF-300).

## **J. Monitoring and evaluation**

- 3.32 The Bank will monitor execution of the AWP through annual progress reports. In addition, a mid-term evaluation will be financed with program funds, to be performed once the equivalent of 50 percent of the loan proceeds have been committed to program activities. Loan proceeds have been earmarked to establish a monitoring and evaluation system based on performance indicators for the purpose of preparing the reports. The DNP will compile the information needed to build the indicators, track their progress, and prepare the reports for publication. The expected outcomes of the program and indicators for measuring them are presented in the logical framework in Annex I. The indicators, baseline and methodology for monitoring them are defined in a supplementary document.
- 3.33 **Ex post evaluation.** The PCU will compile and keep on file all the information and performance indicators related to program monitoring and evaluation (progress reports on AWP, auditors' reports, performance indicators, internal program evaluation report, etc.). This information will be available for review: (a) when the project completion report is prepared; and (b) as an input for evaluations by the Office of Evaluation and Oversight (OVE) or other interested parties, based on their own criteria and in accordance with relevant Bank's policy guidelines (document GN-2254-6).

## **K. Information activities**

- 3.34 The DNP will establish an Internet site to promote the program, facilitate evaluation of its performance during execution and increase transparency in its activities. The site will contain: (a) information on program activities and the involvement of private capital in infrastructure in general; (b) information on how to obtain program funding; (c) description of the private participation projects identified, in the design stage, and completed; (d) progress reports on the AWP; (e) relevant data on the progress of private participation indicators; (f) studies financed with program funds; and (g) other contents and publications of interest to users and investors, etc. The DNP will be responsible for maintaining and updating the site.



## IV. VIABILITY AND RISKS

### A. Institutional viability

- 4.1 The evaluation of stage one of the project concluded that the DNP has sufficient institutional capacity to implement the program and recommended that execution of future programs be concentrated solely in this directorate. In addition to implementing this recommendation, the execution arrangements for stage two seek to maximize the DNP's institutional capacity by separating the tasks of strategic management and execution; clearly delimiting responsibilities in the operations manual; and strengthening the role of the technical (GEINF) and administrative (PCU) coordination bodies.
- 4.2 **Strategic management.** To coordinate activities on the highest level, avoid duplication of functions and maximize the impact of scarce public resources, the program will separate the strategic management and execution functions. It will establish a steering committee to facilitate coordination between the MHCP and the DNP, since this is fundamental for setting the program's priorities, not just as a function of the specified priority-setting criteria, but also based on shifting fiscal parameters and macroeconomic policy priorities in general. The steering committee will establish strategic guidelines for the DNP to use in executing the program.
- 4.3 **Technical capacity.** The DNP has the technical capacity to conduct the program, as corroborated by its earlier experiences in implementing other programs and in designing investment projects geared to sector strategies. The program's technical capacity will be concentrated in the DNP's Infrastructure and Energy Directorate and in the sector technical sections under it. To minimize the adverse effects of directing the program to a variety of sectors and to ensure the technical consistency of the initiatives, GEINF will coordinate the activities of the different sector technical sections and provide advisory services to support the beneficiaries in performing the program's activities.
- 4.4 **Administrative capacity.** The program's administrative activities will be coordinated and supervised by the PCU. The DNP's administrative capacity for the procurement of goods and consulting services will be supplemented by contracting a PM, selected on the basis of its capacity and proven experience in performing its assigned functions.
- 4.5 **Interagency coordination.** The PCU will also coordinate the beneficiary agencies, in order to achieve a higher level of commitment during the study phase and to encourage incorporation of the study findings in each agency's programs. For this reason the program has adopted the strategy of using interagency agreements to ensure that the beneficiaries contribute local counterpart resources. In the

agreements, the beneficiaries will make institutional and technical commitments and undertake to supply local counterpart resources.

- 4.6 The execution mechanism makes implementation of the proposed program institutionally viable. The lessons learned in stage one and the DNP's past experience are such that a great deal of confidence can be placed in the executing agency's institutional capacity.

## **B. Socioeconomic feasibility**

- 4.7 The program's actions in transportation, energy, communications and water and sanitation will translate into a higher standard of living, particularly for the low-income population.
- 4.8 The urban mass transportation solutions will benefit low-income groups in the cities where they are implemented and generate significant savings from reduced travel times and fewer accidents. Implementation of stage one of the TM system in Bogota will bring estimated benefits in savings of travel time by users of US\$1.203 billion during the first 10 years of operation.<sup>30</sup>
- 4.9 The noninterconnected zones are marked by high unmet basic needs and low income levels, which translate into social and economic marginalization. In recent years, these conditions have worsened as a consequence of the lack of physical infrastructure, scant government presence and the increased activity of armed groups. The development of business solutions to deliver electricity in these zones will generate major benefits in education and health and productivity gains for businesses located in the program's areas of influence.
- 4.10 Private participation in social telephone services programs also benefits low-income groups in rural and urban areas. The installation of community telephones in localities currently without telecommunications services and the installation, operation and maintenance of telecenters will give the inhabitants of those regions low-cost access to important information and instruction in the fields of education, disease prevention and training for the development of productive activities, among other advantages.

## **C. Financial feasibility**

- 4.11 The counterpart contribution will come from the government's general budget through direct allocation of funds to the DNP to execute this program and from resources supplied by the beneficiary agencies. The government has appropriated

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<sup>30</sup> Chaparro, Irma, "Evaluación del impacto socioeconómico del transporte urbano en la ciudad de Bogotá. El caso del sistema de transporte masivo, Transmilenio" [Evaluation of the socioeconomic impact of urban transportation in the city of Bogotá: The case of the TransMilenio mass transportation system], Economic Commission for Latin America and the Caribbean (ECLAC), 2002.

funds in the order of US\$1 million to run the program during the first year of execution.

- 4.12 The PCU will enter into agreements with the beneficiary agencies as part of a strategy to ensure their effective participation in program cofinancing. The PCU has begun a series of consultations with the agencies to formalize their commitments in the form of agreements, thus ensuring the timeliness and sufficiency of counterpart funds.

#### **D. Environmental and social impact**

- 4.13 No direct environmental or social impact is anticipated, given the nature of the activities to be financed under the program. However, actions have been planned to minimize the adverse social and environmental impact of any private-participation projects involving program funds.
- 4.14 As part of the activities carried out under stage one of the program, the DNP commissioned a study to define environmental standards applicable to private infrastructure projects.<sup>31</sup> The study contributed to the analysis and definition of technical specifications for the identification and management of environmental impacts and their inclusion in the process of comprehensive environmental management of projects with private participation. The consulting assignment defined and clarified the scope of the requirements established by MAVDT and provided input for sector environmental standards and guidelines. Stage one of the project also financed a study on the formulation and management of an environmental policy for the energy sector, whose purpose was to design a methodology for environmental evaluation in the sector and provide a basis for the formulation of policy guidelines.<sup>32</sup> These studies were used to establish a frame of reference for the prevention and effective management of the potential impacts of infrastructure projects.
- 4.15 **Transportation sector.** Procedures have been established for prevention and management of the social and environmental impacts of transportation projects. The MAVDT is responsible for policymaking and performing environmental impact and environmental alternatives assessments as part of the environmental licensing process. In addition, the design and development of integrated mass transportation systems will include a major environmental analysis component, to determine how

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<sup>31</sup> “Normas técnicas ambientales para proyectos tipo en el marco de la participación privada en Colombia” [Environmental standards for model projects involving private participation in Colombia], DNP, 2001.

<sup>32</sup> In addition, in 2001-2002 the Mining and Energy Planning Unit (UPME) commissioned a study on the valuation of environmental liabilities in Colombia, focusing on the electric power sector (“Valoración de Pasivos Ambientales en Colombia, énfasis sector eléctrico”), with contributions from MAVDT and the DNP. The study included definitions, the valuation approach and principles to guide the preparation of the valuation methodology.

pollution is reduced when there are fewer older vehicles on the road. Environmental guidelines are also available for projects involving airports, ports, railways and maintenance of the secondary and tertiary road systems, among others.

- 4.16 **Energy.** Environmental policy in the energy sector is governed by CONPES document 3120,<sup>33</sup> which establishes an environmental management strategy for the sector and assigns responsibility for monitoring and evaluation of commitments made by the different agencies in such regard. The strategy includes actions related to management planning, regulatory and consensus-building tools, the institutional framework and coordination instruments. Environmental guidelines are already available for hydroelectric and thermoelectric power generation projects and for transmission and distribution.
- 4.17 **Water and basic sanitation.** Overseen by the MAVDT, environmental standards implementation is being strengthened, to achieve balance and consistency between guidelines for the conservation of natural resources and those seeking to expand service coverage. Current legislation and policy guidelines require all projects to comply with environmental standards, a fact expressly stated in all contracts entered into under the business modernization program. Manuals and technical standards for compliance were designed by the former ministries of development and the environment, now under the management of the MAVDT. One of the requirements that projects must satisfy is to have an environmental impact assessment.
- 4.18 Despite progress on the handling of environmental and social issues during execution of stage one of the program, the stage one evaluation determined that this area should be emphasized in infrastructure policy and regulation and in the design of specific projects. In line with this recommendation, stage two will seek to consolidate the government's initiatives by incorporating an environmental and social strategy into the process of private participation in infrastructure. Developing this strategy will entail (a) inclusion of activities to link the treatment of environmental and social factors more closely to infrastructure policy and regulation; (b) refinement of the procedures for incorporating environmental and social components into the design of private participation processes; and (c) inclusion of provisions in this area in the program's operations manual.
- 4.19 The institutional development and strengthening component will support the agencies responsible for the regulation and oversight of social and environmental activities and commitments in the processes of infrastructure privatization and concessioning. In addition, as part of the component for the preparation and promotion of private participation processes, the terms of reference for preparing specific projects will include: (i) the environmental and social evaluation of new

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<sup>33</sup> CONPES document 3120 (June 2001). "Estrategia para el Mejoramiento de la Gestión Ambiental en el Sector Eléctrico" [Strategy to improve environmental management in the electric power sector].

concessions; and (ii) environmental and social audits of existing infrastructure services and systems with significant impacts. In the processes of selecting private operators and investors, the government will explore the introduction of eligibility criteria on social responsibility as a selection factor. Last, the operations manual for the program will summarize existing standards in each sector and make reference to applicable technical guidelines in each case.

## **E. Benefits**

- 4.20 The proposed program will bring significant benefits through an increase in the coverage and quality of infrastructure services; efficiency gains in the management of scarce public resources; improvement in the country's competitive position; and its contribution to leveraging funds for the government in a difficult fiscal context.
- 4.21 Private-sector participation is a good way to leverage the investments that the sector requires, freeing up public resources for investments in other sectors and boosting project execution capacity in a context of fiscal constraint. As a result of the private-sector participation processes prepared and promoted with funds from stage one, private investment of US\$2.792 billion and public investment of US\$2.623 billion was generated, with US\$2.405 billion of that figure corresponding to public contributions for the development of integrated mass transportation systems.<sup>34</sup> Another advantage lies in the efficiency gains from competition among investors and the savings this represents.
- 4.22 Another benefit derives from the major impact that development of the transportation corridors and other intermodal transportation infrastructure to be built, upgraded and operated under the concession system will have on the competitiveness and development of the exporting industry. In Colombia, the large production centers are concentrated in the interior far from ports, which increases the cost of goods and makes the productive sector less competitive. Therefore, the development of an interconnected transportation infrastructure, under an operating system that responds to demand, types of freight and destination of products, is a priority for the country. The development of infrastructure through private participation in keeping with the transportation corridor concept will have a significant impact on the competitiveness of the economy.
- 4.23 For investors, private participation in infrastructure means opening up to new markets, enabling them to diversify risk and achieve attractive returns through long-term investments. If diversification of capital ownership is used, the sale of

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<sup>34</sup> Of the total, US\$300 million in private investment and US\$114 million in public investment correspond to processes that have not yet concluded.

companies that supply infrastructure services could make a significant contribution to the development of the local capital market.<sup>35</sup>

- 4.24 Lastly, customers can benefit from improvements in infrastructure services associated with the entry of qualified private operators. Such benefits will take the form of new technologies being introduced, higher standards for customer service and better infrastructure maintenance. It is worth noting that the indicators for coverage and quality in the infrastructure sectors have performed well since the private participation program was launched.<sup>36</sup>

## **F. Risks**

- 4.25 The program presents four risks: (i) the lack of an ongoing commitment by the beneficiary agencies to implement actions to promote private participation; (ii) limited fiscal leeway that could pose problems with the timeliness and sufficiency of counterpart funds; (iii) eroding investor perceptions of the business climate and less private-sector interest in investing in infrastructure in the region; and (iv) a lack of adequate institutional coordination.
- 4.26 **Commitment of beneficiary agencies.** For political or other reasons, the beneficiaries may fail to implement the recommendations and planned actions to promote private participation in infrastructure services. To mitigate this risk, one of the priority-setting criteria will be to give preference to activities in which the beneficiaries put up part of the local contribution. The practice introduced in stage one of establishing agreements between the executing agency and the beneficiary agencies, in which they commit to oversee and promote implementation of the actions identified as a result of program activities will be continued.
- 4.27 **Availability of counterpart resources.** Given the fiscal constraints on the government, there is a risk that budget allocations for counterpart funds will not be sufficient or timely. The inclusion of mechanisms for the contribution of own resources by the beneficiary agencies will have the added benefit of reducing the need for local contributions by the central government to some extent, at a time when fiscal resources are subject to restrictions or conditionalities related to macroeconomic stability. It should be noted, however, that the central government has appropriated the funds needed for the program during 2004.

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<sup>35</sup> The diversification of capital ownership of Teléfonos de Bogotá (ETB) raised Col\$245 billion (about US\$87 million) brought 61,313 Colombians into the company as investors. Interconexión Eléctrica S.A. carried out a similar process, in which 93,000 individual investors bought shares.

<sup>36</sup> For a more detailed description of how indicators for private investment, coverage and quality in the transportation, energy and water and basic sanitation sectors performed in the period 1994-2001, see the performance indicators for stage one of the program: (1) [Summary of indicators](#) and (2) [Definition](#).

- 4.28 **Investor perceptions and reduced interest.** Eroding private investor perceptions of the investment climate and less private-sector interest in investing in infrastructure in the region are a program risk. The investment generated in private participation projects in infrastructure in Latin America and the Caribbean has fallen considerably, from a peak of about US\$75 billion in 1998 to about US\$17 billion in 2002 (the lowest level since 1993).<sup>37</sup> This can be attributed to the completion of the major privatization processes that began early last decade, and by the economic crisis that adversely affected some of the region's largest economies and hurt investor perceptions of the business environment.<sup>38</sup> The proposed program seeks to lay the groundwork to ensure favorable conditions for the entry and exit of private investors, thereby helping to increase investment. Support will be provided to strengthen the regulatory and oversight frameworks, and financing will be provided for the full preparation of transparent and competitive private participation processes that include the timely disclosure of material technical and financial information. To help reach this goal, a website will be launched to promote the program activities and report on performance. All these actions will help to reduce uncertainty about the quality of these processes and will firm up the authorities' effective commitment to them.
- 4.29 **Institutional coordination.** In view of the large number of entities involved for each of the sectors, there is the risk that coordination among them will not be very efficient. The program design minimizes potential problems related to lack of coordination on execution in three ways: (i) concentrating execution in a single entity; (ii) establishing a high-level steering committee to provide strategic direction for the program and for relations with the beneficiaries; and (iii) basing execution on annual work plans.

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<sup>37</sup> Database on private participation in infrastructure. World Bank, 2003.

<sup>38</sup> "Private Participation in Infrastructure: Trends in Developing Countries in 1990-2001." World Bank, 2003.

**PROGRAM TO SUPPORT PRIVATE PARTICIPATION AND CONCESSIONS IN INFRASTRUCTURE – STAGE TWO (CO-0263)**  
**LOGICAL FRAMEWORK**

Narrative summary	Performance indicators	Means of verification	Assumptions
<b>Goal</b>			<b>Sustainability</b>
To help improve the coverage and quality of basic infrastructure services (transportation, power, communications and water and basic sanitation)	<p><b>Verifiable three years after the end of the program</b></p> <p><b>Transportation</b></p> <ul style="list-style-type: none"> <li>Levels of quality and service at airports granted in concession are in category C at a minimum, and at the El Dorado Airport in Bogota in category B, using the measurement methodology of the International Civil Aviation Organization (ICAO) [<b>Baseline: the El Dorado Airport in Bogota is classified at level C and the other airports to be granted in concession rate between levels C and D – Measurement by the Special Civil Aviation Administrative Unit (AEROCIVIL)</b>]</li> <li>The condition of roads maintained under the private participation arrangement conforms to the conditions (technical indicators for each level of intervention) stipulated in the maintenance contracts. [<b>Baseline: The highway corridors for which projects of this kind are planned do not conform to the minimum conditions established by the National Highway Administration (INVIAS)</b>]</li> <li>Between 40 percent and 50 percent of demand for public transport is mobilized through the integrated mass transportation systems (IMTS) in the cities where they have been implemented. [<b>Baseline: Number of passengers carried in the cities where IMTS are planned: 0</b>]</li> </ul> <p><b>Energy</b></p> <ul style="list-style-type: none"> <li>Increase in the management efficiency of electricity services (at least 2 more hours of service a day, on average) in noninterconnected zones where projects with private participation are carried out [<b>Baseline: average of 8 hours of service a day – Measurement IPSE</b>]</li> </ul>	Statistics compiled by the National Planning Department (DNP)	<p>Continuity in the government's political commitment to the process of privatization of infrastructure.</p> <p>Maintenance of macroeconomic and political stability.</p>



Narrative summary	Performance indicators	Means of verification	Assumptions
	<p><b>Water and basic sanitation</b></p> <ul style="list-style-type: none"> <li>• Increase in water service coverage of 5 percent and sewer service coverage of 5 percent in the municipalities where private participation projects are carried out. [<b>Baseline: water service coverage: 75 percent; sewer service coverage 50 percent. Average coverage in the municipalities where projects were carried out in the last 10 years</b>]</li> <li>• Compliance with Colombian standards (Decree 475 of 1998) on water quality in the municipalities where private participation processes are carried out. [<b>Baseline: As part of the private participation processes, the initial study includes a review of water quality, which generally fails to meet one or more of the requirements of Decree 475</b>]</li> </ul>		
<b>Purpose</b>			<b>Purpose to goal</b>
<p>To increase private-sector participation in the financing, construction and/or operation, upgrading and maintenance of infrastructure in the framework of competitive markets and efficient regulation.</p>	<p><b>Verifiable at the end of the program</b></p> <p><b>Transportation</b></p> <ul style="list-style-type: none"> <li>• Involvement of at least two more private companies in the operation of IMTS in the cities where these projects are planned. [<b>Baseline: At present, seven private operators are involved in IMTS: TransMilenio, Bogota (2003)</b>]</li> <li>• At least two more airports are operated by the private sector under concessions. [<b>Baseline: Airports under concession at present: Cartagena, Barranquilla and Cali, and the second runway at El Dorado Airport in Bogota</b>]</li> <li>• At least three road maintenance funds with private participation are in operation. [<b>Baseline: To date there are no projects of this kind</b>]</li> </ul> <p><b>Energy</b></p> <ul style="list-style-type: none"> <li>• At least two private operators are responsible for the management, operation and expansion of electric power coverage in the noninterconnected zones. [<b>Baseline: Today there are no private operators</b>]</li> </ul> <p><b>Water and basic sanitation</b></p> <ul style="list-style-type: none"> <li>• At least two more private operators are involved in water and sewerage services. [<b>Baseline: 20 operators have been brought in under the business modernization plan (PME) of the</b></li> </ul>	<p>National Planning Department (DNP) statistics</p> <p>Program monitoring and evaluation system.</p>	<p>Effective execution of the 2002-2006 National Development Plan and the privatization processes envisaged in the country financing program.</p> <p>Security and demand factors guarantee returns for private operators in the infrastructure sectors.</p> <p>Private participation processes are carried out under a transparent and competitive framework.</p> <p>The regulatory and oversight agencies maintain effective management capacity.</p> <p>Private sector involvement introduces efficiency in the financing, construction and/or operation, upgrading and management of infrastructure services.</p>

Narrative summary	Performance indicators	Means of verification	Assumptions
	<p><b>Ministry of the Environment, Housing and Land Development (MVADT)]</b></p> <ul style="list-style-type: none"> <li>Instruments for regulation and control are introduced for the policy, regulatory, concessioning, and oversight agencies in the infrastructure sectors. <b>[Baseline: No such instruments have been implemented]</b></li> </ul>		
<b>Components</b>			<b>Components to purpose</b>
<p><b>1. Strengthening the technical and institutional capacity of policy, regulatory and oversight agencies in the infrastructure sectors</b></p> <p>Technical and institutional capacity of the policy, regulatory and oversight agencies in the infrastructure sectors is strengthened and consolidated in a sustainable manner.</p>	<ul style="list-style-type: none"> <li>At least four studies on technical, legal, environmental and operational aspects for the strengthening of policy, regulatory and oversight agencies in the infrastructure sectors are completed by the end of the third year of the project.</li> <li>At least four studies on the design and implementation of instruments for regulation and control for public utilities are completed during the program.</li> <li>Studies for the design and adjustment of policies for universal access, regulation and promotion of private participation in telecommunications are completed during the program.</li> </ul>	<p>Program monitoring and evaluation system</p> <p>Progress reports on AWP execution</p>	<p>The employees of the beneficiary agencies effectively appropriate the technical know-how generated during the program, and the means exist for the creation of institutional memory at each such agency.</p> <p>The beneficiaries have the resources and staff necessary to carry out their functions.</p> <p>Continuity in the regulatory and institutional framework that governs policymaking, regulation and oversight of the infrastructure sectors.</p>

Narrative summary	Performance indicators	Means of verification	Assumptions
<p><b>2. Support for the preparation and promotion of specific private participation processes in infrastructure under sector development strategies</b></p> <p>New processes for private participation in strategic projects formulated under the framework of sector development plans.</p>	<ul style="list-style-type: none"> <li>• Projects to grant concessions for the improvement, upgrading, maintenance and/or operation of at least two airports of high and medium importance in the country are fully formulated by the end of the program.</li> <li>• The conceptual design of at least one mass transportation system is completed by the end of the program.</li> <li>• At least one private participation project for the design and operation of integrated mass transit systems in mid-sized cities is fully formulated by the end of the program.</li> <li>• At least three pilot projects for road maintenance funds with private participation at the national and subnational levels are fully formulated by the end of the program.</li> <li>• At least two projects to develop business solutions for the provision of electricity services are fully formulated by the end of the program.</li> <li>• At least two private participation projects in the water and basic sanitation sector at the national and subnational levels are formulated by the end of the program.</li> </ul>		<p>Private investor perceptions are favorable.</p> <p>Beneficiaries are committed to implementing the privatization and concession program.</p>

**PROGRAM TO SUPPORT PRIVATE PARTICIPATION AND CONCESSIONS IN INFRASTRUCTURE**  
**STAGE TWO (CO-0263)**  
**TENTATIVE PROCUREMENT PLAN<sup>1</sup>**

Main procurements Amounts in US\$	Source of financing		Method	Prequalification	Estimated start date	Status
	IDB (%)	Local (%)		Yes/no		
Consulting services						
Institutional and financial reform of public services Contracting at least four studies to evaluate and implement regulatory and control instruments <ul style="list-style-type: none"><li>Amount: US\$200,000</li></ul>	83%	17%	DC/ LCB	No	2005 I	Pending
Support for policies on competition, universal access and regulation of private participation in the telecommunications sector A study to develop a series of critical indicators for policy design. <ul style="list-style-type: none"><li>Amount: US\$90,000</li></ul>	78%	22%	LCB	No	2005 II	Pending
Maintenance funds A maintenance fund project for highways in the national system <ul style="list-style-type: none"><li>Amount: US\$60,000</li></ul>	75%	25%	LCB	No	2005 I	Pending
Airport concessions Private participation processes for the expansion, improvement, maintenance and operation of airports. <ul style="list-style-type: none"><li>Amount: US\$120,000</li></ul>	100%	0%	LCB	No	2005 I	Pending
Integrated mass transportation system for Cúcuta Consulting services for the conceptual design of the system <ul style="list-style-type: none"><li>Amount: US\$115,000</li></ul>	78%	22%	LCB	No	2005 II	Pending
Advisory services for the formulation and implementation of business solutions to bring electricity service to noninterconnected zones Design and implementation of mechanisms to attract investors and/or strategic operators in two zones <ul style="list-style-type: none"><li>Amount: US\$100,000</li></ul>	100%	0%	LCB	No	2005 I	Pending
Design of private participation processes in the water and sanitation sector Technical, financial and legal framework for bringing in private operators <ul style="list-style-type: none"><li>Amount: US\$80,000</li></ul>	100%	0%	LCB	No	2005 II	Pending

<sup>1</sup> Notes: **ICB:** international competitive bidding  
**S:** Shopping  
**PB:** private bidding

**LCB:** local competitive bidding  
**DC:** direct contracting without competition  
**FA:** force account

Main procurements Amounts in US\$	Source of financing		Method	Prequalification	Estimated start date	Status
	IDB (%)	Local (%)		Yes/no		
Preparation of projects for transportation concessions Various studies • Amount: US\$59,298	72%	28%	LCB	No	2005 I	Pending
Highway concessions Project design and marketing • Amount: US\$200,000	71%	29%	LCB	No	2006 I and 2006 II	Pending
Small concessions in regional partnering Project design • Amount: US\$150,000	71%	29%	LCB	No	2006 II	Pending
Maintenance funds Design of maintenance fund projects for national highways • Amount: US\$300,000	71%	29%	LCB	No	2006 I	Pending
Airport concessions Design of private participation processes for the expansion, improvement, maintenance and operation of airports in three groups • Amount: US\$450,000	71%	29%	LCB and/or ICB	No	2006 I and 2007 II	Pending
Design of integrated mass transportation systems Studies for the construction of origin/destination tables, restructuring of public transportation routes and other technical aspects • Amount: US\$180,000	71%	29%	LCB	No	2007 II	Pending
Design of mechanisms for private participation in integrated mass transportation systems Various advisory services for the legal and financial framework for concessions • Amount: US\$200,000	71%	29%	LCB	No	2006 II and 2007 II	Pending
Traffic management projects in mid-sized cities Consulting services to design nine projects • Amount: US\$700,000	71%	29%	LCB and/or ICB	No	2006 II – 2007 I	Pending
Advisory services to support the design and implementation of a telecommunications sector policy Gathering and analysis of basic data on the sector • Amount: US\$80,000	71%	29%	LCB	No	2006 II – 2007 I	Pending
Technical, financial and legal framework for the contracting of specialized water and sewer system operators Technical, financial and legal framework for bringing in private operators (various) • Amount: US\$360,000	71%	29%	LCB	No	2006 II – 2007 I	Pending
Institutional development and strengthening for policy, regulatory and oversight agencies Studies for the design and implementation of regulatory and control instruments • Amount: US\$200,000	71%	29%	LCB	No	2006 II – 2007 I	Pending

Main procurements Amounts in US\$	Source of financing		Method	Prequalification	Estimated start date	Status
	IDB (%)	Local (%)		Yes/no		
Concession or privatization of public utility companies Advisory services and frameworks (various) <ul style="list-style-type: none"> <li>Amount: US\$500,000</li> </ul>	71%	29%	LCB and/or ICB	No	2006 II – 2007 I	Pending
<b>Goods</b>						
Office equipment <ul style="list-style-type: none"> <li>Amount: US\$10,000</li> </ul>	0%	100%	S	No	2005 II	Pending